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Canada. Royal commission on co-operatives.

Proceedings. v. 7, 1945

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XVIII

Canada Co-operatives, Royal
Commission on
Co-operatives

(ROYAL COMMISSION)
ON
(CO-OPERATIVES)

1945

PROCEEDINGS
(OFFICIAL REPORT)

VOLUME No. VII

PLACE Toronto

DATE February 12, 13, 14, 1945.

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T. S. HUBBARD
OFFICIAL REPORTER

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J.J. Vaughan Esq.

Toronto, Ontario, February 12-13-14, 1945.

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The Commission appointed to inquire into the present position of co-operatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative position of persons engaged in business directly competitive therewith, met in Toronto, Ontario, on Monday, February 12, 1945, with sittings continuing on February 13, and 14.

PRESENT:

The Hon. Mr. Justice ERROL M. McDOUGALL, Chairman

B. N. ARNASON)	
G. A. ELLIOTT)	
J. M. NADEAU)	Commissioners
J. J. VAUGHAN)	

Eugene T. Parker, K. C.	Counsel
Major H. D. Woods	Associate
J. A. Chapdelaine	Registrars
Colonel G. W. Ross	Executive Secretary

APPEARANCES:

W. B. Francis)	Group of Co-operative
Leonard W. Mitchell)	Associations
R. H. Milliken, K. C.		Saskatchewan Co-operatives
G. S. Thorvaldson, K.C.		Income Tax Payers Association
W. H. Howard, K. C.		Private Grain Interests
G. A. Mann, K. C.)	Joint Stock Insurers -- fire,
A. Leslie Ham)	automobile & casualty business
Evan Gray, K. C.		Factory Mutual Insurance Co's.
C. F. H. Carson, K. C.		Canadian Retail Federation
H. W. Shapley		Independent Distributors of Milk & other dairy products in Ontario
Vincent Price		Canadian Seed Trade Association
W. E. McCrea		Toronto Insurance Conference of Ontario Insurance Agents Association
H. W. Macdonnell		Canadian Manufacturers Assoc.
E. W. Bickle		Toronto Board of Trade
J. A. Kingsmill		Investment Dealers Association of Canada
G. W. Mason		American Reciprocal Insurance Association

Toronto, Ontario,
February 12, 1945.

The Commission met at 10.30 a. m., Mr. Justice McDougall presiding.

THE CHAIRMAN: Well, Mr. Parker, what have we this morning?

MR. PARKER: We have eighteen or twenty briefs, Mr. Chairman, dealing with various matters. I have tentatively made a list of them by way of suggestion as to the order in which they might be taken, and it is suggested that this order be followed, subject of course to the convenience of the parties concerned. It is not unchangeable.

THE CHAIRMAN: Do you propose to read it?

MR. PARKER: Yes, and counsel generally will know then what we have in mind, and if any changes are found to be necessary, we can make them. I will provide counsel with a copy of the list.

THE CHAIRMAN: Shouldn't we adopt the procedure of asking for appearances?

MR. PARKER: I think so, yes.

MR. H. W. SHAPLEY: Mr. Chairman, I appear for certain independent distributors of milk and other dairy products in Ontario. I ask the courtesy of being put on the list for Wednesday if that could be arranged.

THE CHAIRMAN: If we can, we certainly will accommodate you in that regard. You might consult Mr. Parker about it.

MR. C.F.H. CARSON: I appear for the Canadian Retail Federation, and if it suits the convenience of the Commission I would like to be heard today, and as early today as possible.

THE CHAIRMAN: Arrange that with Mr. Parker.

MR. CARSON: Thank you, Mr. Chairman.

MR. VINCENT PRICE: I am appearing for the Canadian Seed Trade Association. I am ready to go on today or on Wednesday, but the President of the Association, who wants to be here, will not be free tomorrow.

THE CHAIRMAN: Will you get in touch with Mr. Parker some time during the hearings and try to arrange that?

MR. PRICE: Yes.

MR. W. E. McCrea: I am appearing for the Toronto Insurance Conference of the Ontario Insurance Agents Association. I am engaged in court today, and it would suit my time if I could be here tomorrow or the following day, depending on the Commission's wishes in the matter.

THE CHAIRMAN: Perhaps you would get in touch with Mr. Parker and arrange that so far as possible.

MR. W. B. FRANCIS: Mr. Chairman, at the Toronto hearings Mr. Leonard W. Mitchell of the Ontario Bar will be acting with me as associate counsel. We represent a group of Ontario cooperatives. We are ready to go on at any time that suits the convenience of the Commission. I might mention, however, that we have witnesses here from rural Ontario and would like to release them as soon as possible.

THE CHAIRMAN: Are there any other appearances?

MR. H. W. MACDONNELL: I represent, Mr. Chairman, the Canadian Manufacturers Association. We would like if possible to be allowed to have our say on Wednesday. Is that possible, sir?

THE CHAIRMAN: They seem to be piling up for Wednesday. Perhaps you will consult with Mr. Parker at the first opportunity.

MR. E. W. BICKLE: Mr. Chairman, I represent the Toronto Board of Trade. We have our brief here and are prepared to submit it as soon as convenient.

MR. J. A. KINGSMILL: Representing the Investment Dealers' Association of Canada. Mr. A. G. A. Spence will be presenting our brief. He is not available just now but he will be here later.

THE CHAIRMAN: Then if there are no further appearances, Mr. Parker, will you read the list?

MR. PARKER: This is the order in which I had them down:

1. Toronto Board of Trade
2. Canadian Manufacturers Association
3. United Farmers Co-operative, General Brief
4. Insurance Agents Association
5. Ontario Retail Lumber Dealers Association

No one has appeared today on behalf of the Lumber Dealers Association.

6. Canadian Seed Trade Association
7. Canadian Retail Federation
8. Farmers Supply Co-operative
(United Farmers Co-operative Company)
9. Producer and Marketing Co-operatives
(United Farmers Co-operative)
10. Ontario Credit Union League
(United Farmers Co-operative)
11. Urban Consumer Co-operatives; Ontario
Co-operative Union
- 12.. Investment Dealers Association
13. Independent Distributors of Milk and Dairy
Products

This last brief is still to be filed.

THE CHAIRMAN: I think you might proceed, and at the adjournment you could arrange with counsel the order in which the cases should go on, so far as possible.

MR. PARKER: Mr. Macdonnell, can you go on later this morning?

MR. MACDONNELL: If that is the wish of the Commission.

MR. PARKER: Are your people here?

MR. MACDONNELL: Yes.

MR. PARKER: Then we can take the Toronto Board of Trade first, then the Canadian Manufacturers Association, and third the general brief of the United Farmers. That will serve until the lunch hour, and then if any change in the order is found to be desirable, it can be arranged.

MR. MANN: Mr. Chairman, I gave notice on behalf of the joint stock insurance companies with respect to the hearing of our brief at Montreal on the fifteenth. The brief has been forwarded to Ottawa to be lodged before the fifteenth as required by the original notice. Now, I can see from the appearances here today that there is no question of insurance to be discussed at these Toronto hearings, except the Ontario agents' brief; so far as we know, the general mutuals operating in Canada are not to be inquired into here.

THE CHAIRMAN: Mr. Francis may be able to tell you something about that. Mr. Francis, can you advise Mr. Mann on that subject, as to the mutuals?

MR. FRANCIS: The proposal is that the mutuals be heard in Ottawa after the Halifax sitting. I was going to make a general statement in a moment that would cover that point as well.

MR. MANN: Mr. Chairman, that being the case it clears the atmosphere a little. But so far as the position of the mutuals is concerned, have they filed a brief, or do they intend to file a brief?

THE CHAIRMAN: Perhaps you might make your statement now, Mr. Francis.

MR. MANN: Then I will hear the statement to be made by Mr. Francis before I make the application I was going to make.

MR. FRANCIS: This is a brief general statement on the cooperatives' submission, made with a view to saving time and also assisting the Commission as well as the co-operatives themselves.

It is proposed to submit a number of briefs under the auspices of the Ontario Co-operative Union, which is associated with the Co-operative Union of Canada; it is one of the provincial organizations. I have here a list of the submissions we propose to make at the Toronto hearings:

1. Ontario Co-operative Union
2. Farm Supply Purchasing Co-operatives
3. Urban Consumer Co-operatives
4. Producer and Marketing Co-operatives
5. Ontario Credit Union League Limited

These are the five briefs. Now, it is proposed first of all to present this general brief on behalf of the Co-operative Union; and that will give a complete picture of the organization, the method of operation, the financial set-up, and so forth. We have submitted full information in the brown folder with regard to all the cooperatives that we represent; it is as complete as we can make it, and it is in a form readily available to the Commission.

MR. PARKER: Do you wish to read all that?

MR. FRANCIS: If the Commission asks for it.

THE CHAIRMAN: It looks rather formidable.

MR. FRANCIS: It is very interesting. In reviewing the situation it seemed quite clear that it would be impossible to present all briefs at the Toronto hearing. It was felt that those representing smaller cooperatives should

be given first opportunity, as the officers of the smaller cooperatives would find it very difficult to proceed to Ottawa. It should be mentioned that owing to the heavy demands on the time of the executive officers and their staffs, and the difficulty of holding meetings during recent weeks in Ontario, it was felt by some of the larger cooperatives that they could not do justice to their submissions at this hearing. I wish to make it clear that any of the cooperatives referred to in the submissions which we make here will of course be quite willing to present briefs at Ottawa if the Commission expresses a desire to hear them. Large cooperatives which are mentioned but are not presenting briefs at this hearing include the following:

United Farmers Co-operative Company Limited
Canadian Co-operative Wool Growers Limited
Ontario Honey Producers Co-operative Company Ltd.
Co-operative Packers Limited

These organizations, as I say, are not presenting briefs here today, but they are ready and willing to present briefs at Ottawa if the Commission so desires; and this applies also to others, any mentioned in our submissions. So that if we have an intimation from the Commission as to what the Commission would desire we shall be pleased to make the necessary arrangements to prepare briefs and submit them at Ottawa.

Now, I would like to make particular reference to the farm mutual insurance companies. For a number of reasons a farm mutual brief has not been filed; a short outline has been filed, a short brief which might be regarded as an outline, and the comprehensive brief will be prepared and submitted to the Commission at the second Ottawa hearing.

One other point. With respect to the briefs filed, I trust it will be possible to save considerable of the Commission's time by reading only particular sections of some briefs. There is some duplication that could not be avoided, because the briefs were prepared before the person preparing them knew what had transpired in the other provinces. However, much of the material is very good and very helpful, and we would like to let it stand. We have available copies of all the briefs for all counsel present, so that they can follow the reading.

Also in connection with any of these briefs we have competent persons available to substantiate the statements they contain and to give any further information the Commission may desire.

MR. MANN: Mr. Chairman, that answers me only partly. It has reference to the farm mutuals.

THE CHAIRMAN: There is nothing else listed, Mr. Mann.

MR. MANN: I understand that fully; but what I was about to say on behalf of the joint stock insurance companies is this. Notice was given of our brief to be heard in Montreal. There is no advantage in our brief being heard in Montreal when not only are the farm mutuals being heard at the second sitting in Ottawa but in addition to that none of the mutuals in Ontario have presented a brief, so far as I understand; none of the mutuals operating in Canada from the United States mutuals, New England mutuals, have presented a brief. Whether they will or not is their affair. They have not been inquired into; it lies with the Commission to decide whether they will be inquired into or not. But it is completely useless for our brief to be opened and read in Montreal on behalf of companies that are all taxed, all assessed and all paid.

THE CHAIRMAN: Can we cross that bridge at Montreal?

MR. MANN: But, Mr. Chairman, if there is no advantage in our brief being heard we are going home. Of course that is entirely our business; but I wanted to ask you, Mr. Chairman, that an order be directed at your convenience that our brief be not made public until after the mutuals have been heard -- or concurrently if you will, at the second sitting in Ottawa when you come back from the east.

THE CHAIRMAN: We cannot deal with it now anyway, Mr. Mann. We cannot make any order in advance.

MR. MANN: You cannot deal with it but you can have it on record and have it in mind, Mr. Chairman.

THE CHAIRMAN: Quite.

MR. MANN: You will appreciate the almost useless situation -- a statement of facts on behalf of companies that are not being inquired into in any way, shape or form, and in respect of a situation which is not before the Commission and about which the Commission knows very little. You have one group of companies that you are going to hear in Montreal, whether at the first or second sitting I have not been advised.

THE CHAIRMAN: You must remember that although the briefs may not have been filed, the subject is before the Commission under the terms of reference.

MR. MANN: I am perfectly conscious of that, but so far as I know the inquiry has been directed in respect of such organizations as have filed briefs. If there are organizations information from whom would be of manifest advantage to the Commission in respect of the scope of this inquiry and who have not filed briefs, then it is my suggestion they should be either asked to file them or asked to appear and give the Commission the information that the

Commission must require under the terms of its reference. Therefore until the facts that may be set forth in our brief are before this Commission in the form of proven evidence, our brief is of very little use to the Commission. My application is that it be not opened and not made public until the second sitting at Ottawa.

THE CHAIRMAN: So far as we are concerned that is quite satisfactory to us. I think we may say there will be no presentation of the mutual situation in Toronto, except the farm mutuals. They are not coming here now.

MR. MANN: No; their application is to go to the second sitting in Ottawa.

THE CHAIRMAN: Then you are not interested in any other cases here?

MR. MANN: No, except mutual insurance and insurers, and so-called cooperatives, if they call themselves co-operatives -- insurers of course. It is the same thing.

THE CHAIRMAN: We can leave it there, then.

MR. MANN: That is my application -- that the brief stand over until the second sitting at Ottawa. As regards the ones that you have asked to attend and who have not filed briefs, I understand there are one or two mutuals you did ask to attend simply to give you some information, but who had not filed briefs. That information probably will be available to you at the second sitting also -- I do not know whether it is the first sitting or the second sitting.

THE CHAIRMAN: You are not on this list today, are you? You are listed for Montreal, and that is the place to deal with your application.

MR. MANN: But you see my difficulty is that I must

put this to the Commission here and now.

THE CHAIRMAN: We have it, Mr. Mann.

MR. MANN: I understand you have it, but what I am interested in is having the factual information from the mutual insurance companies upon which I can intelligently discuss our brief; and we have not that factual information. That is all I am putting to the Commission.

THE CHAIRMAN: Neither have we.

MR. MANN: No, but I am hoping you will get it, whether they have filed a brief or not. If they have not, I am cherishing the hope also that you will get it. Well, you understand my position, Mr. Chairman.

THE CHAIRMAN: Quite.

MR. G. W. MASON: Mr. Chairman, I shall be appearing later for the American Reciprocal Insurance Association. My friend Mr. Salter Hayden was to appear for the American Mutual Alliance, but for reasons I mentioned to you and Mr. Parker this morning I have had to ask for an extension of the time for the filing of the brief until the nineteenth and that the brief for the American Mutual Alliance be presented, we hoped, on the twenty-first at Montreal. My friend Mr. Gray is filing a brief, not yet ready, for the factory mutuals, and Mr. Robertson of this city is filing a brief on behalf of the syndicate mutuals. Now we had assumed that my friend Mr. Mann would be making his presentation in Montreal and that that would be a very convenient time at which to deal with the whole subject of insurance. I still think it is, with all deference to him. But my friend Mr. Mann should consider that he is in the position of plaintiff, so to speak; he is filing a brief and he is trying to disturb the status quo. I submit we ought to

hear what he has to say as to the reasons for any disturbance of the present position, and having heard him we should be in a position to reply to him with some usefulness to the Commission.

THE CHAIRMAN: We have not discovered any plaintiffs or defendants, properly speaking, Mr. Mason.

MR. MASON: Well, there is perhaps an analogy, Mr. Chairman. Speaking for the American Reciprocal Insurance Association I may have to raise a point later as to whether or not we are within your scope, but I need not deal with that now. What I would like to do is to arrange with my friends if we can some *modus vivendi* so that we may know what is immediately ahead of us. If it suits my friend I think it would be fair that he should make his presentation in Montreal on the nineteenth or twentieth, and that the friends whom I have mentioned should be heard in Montreal at the same time. If my learned friend is not going to proceed in Montreal, manifestly it would be unfair to ask us to put in what is really a reply to his demand until we have had an opportunity of hearing what he has to say at the second sitting in Ottawa.

THE CHAIRMAN: Perhaps you will confer with Mr. Mann and reach some agreement.

MR. MASON: Well, I shall try.

MR. MANN: I am sure Mr. Mason and myself are both anxious to suit the convenience of the Commission. But I am afraid my friend Mr. Mason is surrounding himself with too virtuous a halo when he says I am in the position of plaintiff. My position with this Commission so far as my people are concerned is that of getting information before this Commission. We are not under any inquiry; my friend is. We comply with the statute. I hope my friend

does; I do not know whether he does or not, but that is what I want to know. If he complies with the statute, then I am satisfied. It is not for us to find out that he has complied with the statute. I do not think I am going to prosecute him or hurt him in any way; I am not doing anything of the kind. When he sees my brief he may be surprised. But I am satisfied to suit Mr. Mason --

THE CHAIRMAN: I think the grounds for a conference with Mr. Mason have been established. I will leave it to you gentlemen to arrange it.

MR. MANN: I am perfectly satisfied if Mr. Francis wants to put in his briefs at the second sitting -- he has farm mutuals; Mr. Mason has a number of mutuals, and Mr. Evan Gray has the factory mutuals. The second sitting will probably be a convenient place to do it.

MR. PARKER: Mr. Chairman, perhaps it would be helpful if I stated at this stage in effect what I stated at one of our previous hearings when a matter similar to this came up. I think counsel might perhaps look at it in this way; they or the interests they represent have been invited, not ordered, to submit anything they may have to say to this Commission. If they do not wish to submit anything to this Commission, I take it at the moment that is their business. If however after we have heard all that has been voluntarily submitted to us we feel that the information is not complete, I have no doubt the Commission will invite them in sterner tones to submit it. It is not getting us anywhere to consume the time of the Commission in trying to establish now who is to come first and who is to come second. If counsel are unable to agree on that among themselves, it seems to me quite useless to expect the Commission to settle these disputes at this stage.

MR. EVAN GRAY: Mr. Chairman, I represent the factory mutual insurance companies. We have filed in Ottawa a summary submission as required by the regulations of this Commission. Our full brief is ready; as a matter of fact it is being bound today and will be filed in Ottawa before Thursday as required by your regulations. We expect to appear in Montreal at the sitting of this Commission next week and will ask the privilege of being heard at that time. But this, as my friend Mr. Mason has already said, was founded on the assumption that Mr. Mann and his colleagues of the joint stock companies would be heard at the same session; and it was natural for us to assume they would be heard first. But as Mr. Parker has suggested, that is a matter for arrangement; we can discuss that later. May I say it seems to us important for our clients to know whether or not the insurance briefs will be read and discussed in Montreal, and I do hope it will be possible for the Commission to indicate now whether that will occur or not, since so many plans and arrangements with respect to transportation and reservation depend upon it. So my suggestion to the Commission is that Montreal would be convenient both for the joint stock companies and for the mutuals and that should be the time when all these briefs might well be heard.

THE CHAIRMAN: The Commission will take that into consideration at its next meeting. In the meantime if counsel will do what they can to get it settled in their own minds about where and when they are going on, it will be helpful. If we have to decide it we will of course do so, but we would prefer that counsel agree.

MR. HOWARD: I should like to make a short statement to the Commission, in the nature of a point of order.



I hand you a copy of The Western Farm Leader of February 2, 1945. This is a periodical published in Calgary, Alberta, which appears twice each month.

Your attention is drawn to a paid advertisement which appears on page 3, also numbered (35), over the name of Alberta Wheat Pool. This reads as follows:

"The Main Target

"The wheat pools are the main targets for attack at the sittings of the McDougall Commission. Opponents of the farm cooperative movement know what they are doing in following this course. They believe that if only they succeed in destroying the wheat pools or even in making them conform to a policy favourable to opponents, the smaller farm cooperatives can easily be handled. If they do manage to achieve success in their objective the farmers of western Canada will be the losers.

Alberta Wheat Pool."

I submit that this is a false statement and reflects upon the integrity of all private enterprises which have thus far made submissions to your Commission.

So far as I am aware, there have been to date only passing references to the wheat pools, and there is not an atom of evidence to suggest either that representatives of private enterprises who have appeared before you are, in the words of this advertisement, "opponents of the farm cooperative movement" or that they are conspirators in a movement to destroy the wheat pools.

All that private enterprises have been seeking or are likely to seek at your hearings is the making by you of a report which will induce the Dominion Government to collect

income and excess profits taxes from cooperatives and so-called cooperatives on a basis which will make them truly cooperative with other citizens of Canada in bearing their share of this country's economic burdens.

I submit, moreover, that this advertisement is not merely a false statement but that it also impugns either the intelligence or the honesty of the members of the Commission by hinting that success may be achieved, through you, in the attainment of unworthy objectives by some unknown and, I am sure, non-existent foes of the farmers of western Canada.

If you desire confirmation of the fact that this advertisement reflects the attitude which the Alberta Wheat Pool is adopting towards your Commission, I suggest you obtain copies of the text of the broadcasts which this pool has been making over the Calgary station it uses three times daily for the dissemination of propaganda.

THE CHAIRMAN: I rather understand, Mr. Howard, that you bring this to the attention of the Commission as a matter of record.

MR. HOWARD: For your information.

THE CHAIRMAN: Rather than that the Commission should take any particular action.

MR. HOWARD: I leave that to your judgment.

THE CHAIRMAN: So far as any implied criticism of the Commission is concerned, I do not think we are worried about that. We expect to get much more.

Very well, Mr. Parker.

MR. PARKER: Just one word with regard to the order in which we shall proceed this morning, so that everyone will be happy. Counsel for the Canadian Retail Federation,

number seven on the list, is pressing to be heard second, and unless someone else objects I will agree to that -- and if Mr. Macdonnell is willing.

MR. CARSON: I am not pressing to be heard, but I would like to go on as early today as I can.

MR. PARKER: I think that can be arranged. Then we will begin with the brief filed by the Toronto Board of Trade.

E. W. BICKLE,

President,
Toronto Board of Trade,
examined:

BY MR. PARKER:

Q. Mr. Bickle, I understand you are to present a brief on behalf of the Toronto Board of Trade? A. Yes.

Q. Will you please tell me whether the statements therein contained are statements of fact within your own knowledge and that you are in a position to swear to, or is it merely argument which will be unverified by sworn evidence? A. I suggest as far as I am personally concerned that it is merely an argument.

Q. Is there going to be someone available who can verify any of the statements made in the brief? A. Mr. Tolchard will you as Managing Director of the Board of Trade be prepared to swear to any of the facts here?

MR. TOLCHARD: I don't know that I would fully, Mr. Chairman and gentlemen. We are in the unfortunate position that those who are fully informed are either absent from the city or not available today.

THE CHAIRMAN: To the best of your knowledge and belief.

MR. TOLCHARD: We believe all we say there is true.

THE WITNESS: That is right, Mr. Chairman.

MR. PARKER: I wish to make it plain that any statements that are not verified will of course have to be read in that light when they come to be considered. That is the only reason I mention it. Then if you will go ahead, Mr. Bickle, and read the brief.

THE WITNESS: Mr. Chairman and members of the Commission, before I read the brief I would like to extend to the Commission on behalf of the Board of Trade a cordial welcome to the city of Toronto, and express the hope that your stay amongst us will not be the least pleasant of your many visits to the centres of Canada.

THE CHAIRMAN: Thank you, Mr. Bickle.

THE WITNESS: This is the brief of the Board of Trade of the City of Toronto, addressed to The Honourable Errol M. McDougall, Chairman and Members of the Royal Commission on Co-operatives. It reads:

"The Board of Trade of the City of Toronto is an organization of business men with a membership of approximately 3,500 persons engaged in all phases of business and the professions and engaged in trade not only in the City of Toronto but throughout the Dominion.

"Cooperatives have their place:

"The Board of Trade of the City of Toronto proposes to recommend within the terms of reference establishing your Commission, that certain revisions be made in that section of the Income War Tax Act which exempts from taxation cooperatives or mutual organizations. We shall confine this petition to the re-establishment of equity in our fiscal system, noting the serious consequences to the public weal which would ensue if the existing inequitable tax base is maintained. It should be emphasized that this is not intended to be an argument against cooperatives either as

social or political institutions. We believe that the co-operative which in the true sense is a joint venture of a number of individuals banded together for the purpose of providing goods and services at a lower cost to themselves than would otherwise be possible in the open market, has its competitive place like any other organization in our business system.

"British principles of equity and taxation:

"As with most of our political and economic institutions, our taxation system is inherited in its broader principles from Great Britain. Up through the years it was recognized that while the citizen, to whom the government was ultimately responsible, had certain political and economic rights, he had in turn specific duties to the state. Basically each individual was expected to contribute to the national well-being as represented by the services and protection provided by his government, in proportion to his respective ability. Taxation was applied equitably and was not distorted into an instrument for social reforms or the establishment of special privileges.

"Nominal inequities:

"Nominal inequities are almost inevitable in any taxation statute. The British and Canadian fiscal systems provide no exceptions. Frequently these inequities develop from administrative practices or from a misinterpretation of existing tax statutes. In England when the original Rochdale Organization was established in 1844, income tax was still something far distant in the future. Even in 1907, cooperative societies were not generally thought of as competitive business organizations when the original Income Tax Act was introduced in Britain. Cooperatives were still regarded primarily in a social sense and since the incidence

of taxation was not too heavy on enterprise generally; it did not greatly concern business men in Great Britain as to whether or not these societies received special privileges under the Act. Their total payments into the national revenue, if they had been taxed at the then prevailing rates, would have been of nominal proportions which would have hardly justified the expense of collection. Under such circumstances, it did not mean that their competitors were forced to bear any appreciable increased burden in their income tax payments.

"Other Royal Commissions on cooperatives:

"After the First Great War in 1919, however, when the tremendous increase in revenue required for government purposes dictated a much higher income tax rate on corporate enterprise, a Royal Commission was appointed for the purpose of investigating the position of cooperatives in Great Britain under the Income Tax Statutes. The majority findings of that Commission emphasized strongly that cooperative business organizations could not be interpreted as doing a 'mutual' business under the law. In other words, the argument that profit could not arise from mutual trading -- that is, trading with oneself -- was not recognized. It was ruled that a cooperative was in effect a legal entity distinct from its members. As such, it could make a profit or loss in the same way as any other business enterprise, and 'should be treated exactly as a limited liability company trading in similar circumstances and under similar conditions.' While no action was taken under this report, in 1932 a further committee was appointed by the Chancellor of the Exchequer which brought in substantially the same recommendation. This was implemented by the British Finance Act of 1933, section 31, which made all forms of cooperative

enterprise operating in similar circumstances and under similar conditions to other business undertakings subject to the incidence of Income Tax legislation.

"Inequity in Canadian tax system:

The parallel in Canada is striking. The cooperative movement has expanded from its origin in Stellarton, Nova Scotia, in 1861 to a tremendous business with an annual volume of \$353 millions in 1943. As in Great Britain, it was also recognized by Canadian business generally, after the imposition of the Income War Tax Act of 1917, as amended to exempt certain forms of cooperative enterprise from income taxation, that inequity had been introduced into the Canadian fiscal system. There was, however, little appreciation at the time of the effect of these exemptions. Amendments and arbitrary interpretations of the Act made by the Department of National Revenue had the effect of exempting most forms of cooperative enterprise. Thus by 1930 there had grown up a body of legislation which introduced an extraordinary and unprecedented degree of inequity into the Canadian fiscal system. Business men generally, however, who were subject to taxation were not articulate in those days in presenting representations to parliament protesting this establishment of a privileged class for the purpose of taxation. That was primarily because cooperative enterprise during the thirties was only subsidized under prevailing tax rates to an amount roughly 10 per cent of their earnings, but the full effect of subsidized competition was still in the future.

"Economic structure imperilled:

"During the present war, however, there has been a decided change. Because of the tremendous increase in corporate income tax rates, that inequity has now increased

to such a degree that, in our opinion, it seriously impairs our economic structure. Tax-responsible business now pays income and excess profits tax at a combined minimum rate of from 30 per cent to 40 per cent and at a maximum rate of 100 per cent less 20 per cent refundable in certain cases, while most cooperatives under existing legislation and tax interpretations by the Deputy Minister of National Revenue for taxation, do not have to make any monetary contribution to the National Treasury.

"War cost unevenly distributed:

"What are the results? Tax-responsible business has accepted an abnormal burden of taxation as part of its share in winning the war and, therefore, has found it most difficult to build up adequate reserves for post-war reconversion and expansion. The cooperatives on the other hand, have been able to retain in full the surplus resulting from the volume of wartime business. Their competitive position has been steadily improved while that of most forms of taxable business has necessarily shown a corresponding deterioration.

"Effect on national economy:

"What will be the effect on our national economy if the existing inequity in taxation is maintained? We recognize that to provide the cost of the various social measures presently contemplated and of servicing our increased national debt, the national revenue of Canada must be much greater than it was in pre-war years. If that is so, much of the responsibility for its accomplishment rests with the business man. Taxed business will not be able to compete with co-operative enterprise which receives a heavy subsidy equal in amount to the taxes it should pay to the government. An incentive of substantial proportions is, therefore, provided to tax-free operation through the legal expedient of assuming

'cooperative' form which would entitle a business to the exemptions contained in Part 2 of the Income War Tax Act, Chapter 97.

"Widening tax base:

"This trend is already evident and it will accelerate. As the area of taxable business narrows, the burden of taxation will progressively increase if the government is to maintain its necessary amount of revenue. The logical result of this process is that cooperatives would monopolize the field, taxable business would disappear and with it would go a major source of government revenues.

"Ultimately a most serious obstacle will have been raised to the achievement of full employment of our human and material resources. This will be so since the stimuli of competitive practices will not be available as a deterrent to the establishment of a cooperative monopoly which would be just as stultifying in its effect on our national economy as any other form of monopoly. Similarly, economists and business men recognize that a high tax rate is a serious deterrent to investment and expansion. The prospect is for an ever-increasing burden on tax-responsible business, leaving a minimum incentive to venture capital which is the mainspring of business prosperity.

"Export trade an important factor:

"It should be emphasized that Canada is primarily an exporting country. Our population is small and is only growing slowly while our industrial investment, as represented in capital equipment, is large. During the war, it was again expanded greatly by some one billion dollars.

"Our dependence on export trade will be even greater than before the war. The immensity of the problem facing us is evidenced by the fact that approximately 80 per cent

If our present dollar volume of exports is in the form of war goods. Reconversion to peacetime channels of trade will call on all the resources and initiative of the Canadian exporter. If this important section of industry, vital to the welfare of all Canadians, is to operate close to capacity, it must not be penalized by higher tax rates than would be necessary under an equitable distribution of the tax burden.

"Inevitable result:

"It can be readily seen, therefore, that the net results of continuing the existing inequities in our fiscal system would seriously jeopardize the prosperity and social well-being of our Canadian people.

"Recommendations:

"We believe that all cooperative organizations should be treated exactly under our tax laws as any other incorporated business trading in similar circumstances and under similar conditions, and, therefore, recommend for your consideration the following corrective measures to remove discrimination and restore equity in Canadian fiscal policy insofar as cooperatives are concerned.

"1. Cooperative organizations should make annual corporate income tax and excess profits tax returns, including all information returns, on the same basis and on the same forms as all other types of business, and Section 4 (p) of Part II of the Income War Tax Act should be revoked.

"2. All rulings made by the Department of National Revenue officials qualifying the application of the Income War Tax Act to cooperatives should be published in the Canada Gazette.

"3. Provision should be made for the equitable taxation of so-called patronage dividends or any other form of distribution to members as are dividends received by shareholders of limited liability companies.

"Respectfully submitted,

Robert Fennell,
President.

F. D. Tolchard,
General Manager and
Secretary."

BY MR. PARKER:

Q. Mr. Bickle, although you have not been sworn there are one or two points I should like to ask you a question or two about. Referring to the first paragraph of your brief, where you speak of the number of persons who form the membership of the Board of Trade, can you tell me whether there are any of your members who are also members of any cooperative society? A. Yes, there are a few members of the Board of Trade who are members of cooperatives.

Q. Some substantial number? A. No, a very minor number, I would say -- out of 3,500, perhaps twenty-five or thirty.

MR. TOLCHARD: I know of only two or three myself.

THE WITNESS: It is a very minor number, in any event.

BY MR. PARKER:

Q. Whatever the numbers may be, I take it they do not agree with the views expressed in this brief? A. I would imagine they would not.

Q. Then, in the second paragraph -- we have endeavoured so far to keep away from that word "political" -- you say: "It should be emphasized that this is not intended to be

an argument against cooperatives either as social or political institutions." You are not suggesting, I take it, that cooperatives in this country are in any sense political institutions? A. Far from it, no. If there is any such suggestion in there, it was certainly unintentional.

Q. I felt that that must be so, but there might be a wrong inference taken from that. Then the same thing occurs in the next paragraph, the last sentence: "Taxation was applied equitably and was not distorted into an instrument for social reforms or the establishment of special privileges." Again are you suggesting that the cooperative movement in this country is an instrument for social reforms or has been distorted into an instrument for social reform?

A. Well, it could be suggested -- I am in a somewhat embarrassing position, because as Mr. Tolchard has pointed out, the men who are responsible in large measure for the drafting of this brief unfortunately either through illness or being out of town were not able to be present, and to an extent at any rate I am just an instrument for reading this general brief from the Board of Trade.

Q. But you see the difficulty; I want to know if it is being suggested to this Commission or to the government and to the country at large by 3,500 responsible citizens that in their view the cooperative movement is one which is being distorted into an instrument of social reform. A. Well, I don't know about the social reform; but I would certainly agree, that the establishment of special privileges is included in it.

Q. Now on page two of your brief, the second sentence of the second paragraph, you say: "As in Great Britain,

it was also recognized by Canadian business generally," and so on. What do you mean by "Canadian business generally"? How much territory are you taking in there? A. I am sorry; I haven't got your reference there.

Q. The second sentence on page 2, the paragraph headed "Inequity in Canadian Tax System" -- it is the third sentence, actually: "As in Great Britain, it was also recognized by Canadian business generally, after the imposition of the Income War Tax Act of 1917, as amended to exempt certain forms of cooperative enterprise from income taxation, that inequity had been introduced into the Canadian fiscal system." It has been argued before this Commission that there is no inequity presently existing, and you are saying here that inequity is recognized by Canadian business generally. I ask you how wide a section of Canadian business are you including there. A. Whether Canadian business generally recognizes that or not, at least more of Canadian business recognizes it today than did even a few months ago. Whether Canadian business at that time recognized the principle of inequity or not, that is more or less of a generalization, I would say.

Q. Then there is another sentence in the middle of that paragraph: "Thus by 1930 there had grown up a body of legislation," referring to departmental rulings. I take it you do not mean legislation by the parliaments; you really mean departmental rulings rather than legislation, do you not? A. I would judge it would probably be both, would it not?

Q. I am not aware myself of any legislation.
A. As amendments were added to the Act under legislative powers.

Q. That is what you are referring to. A. I would think it referred to both.

Q. Then on the third page, second paragraph, under the heading "Would Narrow Tax Base," you say: "The logical result of this process is that cooperatives would monopolize the field, taxable business would disappear and with it would go a major source of government revenues." Assuming for a moment that that statement is true, does it follow that it is in the public interest to take action?

A. I would definitely say so. That is definitely part of our brief.

Q. If that sort of revenue were gone, would it be logical to look for some other to take its place? A. That would be up to the government to decide. If they lost that field of revenue, where they would replace it would be a matter of government policy.

Q. That theoretically at any rate they might get a field which would be more equitable. A. Theoretically that is quite possible.

Q. As you say, that is something in the distant future. A. Quite.

Q. Then in the next paragraph you refer to a "cooperative monopoly"; would you care to say just what the Board means by that. A. What is that again? I am sorry I did not follow you.

Q. Right in the middle of that same paragraph you say: "This will be so since the stimuli of competitive practices will not be available as a deterrent to the establishment of a cooperative monopoly." Are you suggesting that these cooperatives are creating a monopoly which would stultify -- A. Definitely.

Q. Will you elaborate that? A. Well, I think that

recognizes, as stated in the previous paragraph, that the ultimate growth of the cooperatives would result in all business being under the cooperative movement here, which in turn creates a monopoly.

Q. But until they entered the field the entire field was occupied by so-called private business? A. Yes.

Q. Would you call that monopoly? A. In a particular sense, yes. Obviously if private business has all the business in the country, then private business as such is a monopoly.

Q. That is the sense in which you use the word? A. I would think that is the sense.

Q. Not a monopoly in the sense in which it is sometimes used. A. No, far from it -- a very broad sense.

Q. Now we come down to the recommendations which you make, and that is what the Commission is more interested in than anything else. I want you to look at this carefully if you will: "We believe that all cooperative organizations should be treated exactly under our tax laws as any other incorporated business" -- and I emphasize the next words -- "trading in similar circumstances and under similar conditions." Perhaps nobody could differ with you on that if they agreed that the cooperatives and ordinary corporations were trading in similar circumstances and under similar conditions. Do you think they are? A. No; I would think that probably those words are unfortunate, considered in the narrow sense. In the broad sense I think they can be accepted, though.

Q. Does your Board recognize there are fundamental differences between the methods of operation of cooperatives and those of ordinary joint stock companies? A. Yes.

I think in preparing this what our people had in mind was more the idea of a departmental store, grain, any of the other companies trading in more or less similar circumstances -- not into details of operation.

Q. Then as to the first recommendation: "Cooperative organizations should make annual corporate income tax and excess profits tax returns"; don't they do that now?

A. Learned counsel here --

Q. Just a moment; learned counsel may have their opportunity, but I am dealing now with the representations of the Board of Trade, if there is anyone who can speak for the Board of Trade. Are you suggesting, is the Board suggesting through this brief, that cooperatives are not making returns? A. I would suggest they are not making the same return as the private company is.

Q. Perhaps that is so, because they consider themselves entirely different. A. Quite.

Q. But are they making returns of any sort?

A. They must be making some returns, yes.

Q. You are suggesting they continue to do that, I suppose, so that it will disclose the true nature of their method of operations; is that it? A. Yes.

Q. "Including all information returns, on the same basis and on the same forms as all other types of business." Well, by that I take it the writer means they should be able to show all their methods of operation.. A. On the same basis exactly as the private business.

Q. So as to give a true and correct picture of what they are doing? A. Yes.

Q. Now, the second recommendation is very useful, I think, that "all rulings made by the Department of

National Revenue officials qualifying the application of the Income War Tax Act to cooperatives should be published in the Canada Gazette." I take it you are aware, the Board is aware, that rulings of the Department of National Revenue are not judicial decisions; they are not reported -- that is what you have in mind. A. Yes.

Q. You think they should be made available so that there would be some uniformity or some pattern which everybody could understand and follow; that is your suggestion. A. Right.

BY MR. ELLIOTT:

Q. Would it be your suggestion that that be done with respect to other companies as well as cooperative companies? A. I think in the brief we are dealing only with the cooperatives, Mr. Commissioner.

BY MR. PARKER:

Q. Would you suggest there is any reason why rulings relating to cooperatives should be made public and rulings relating to private companies should be kept private? A. Are you asking my personal opinion?

Q. Yes. A. No; I would think all rulings should be put in the Gazette -- personally.

Q. Then, finally: "Provision should be made for the equitable taxation of so-called patronage dividends." I suppose everybody in the country would agree with the general proposition that taxation should be equitable; but are you suggesting any change that should be made in order to make equitable that which is now inequitable? A. That is correct.

Q. Can you tell us how it could be done?

A. I am sorry, but I cannot suggest the details of it.

Q. Are there any officials of the Board of Trade who are prepared to give the Commission the benefit of their considered views as to what changes should be made?

A. As a matter of fact that paragraph was brought to the Board's attention this morning. It may be if the Commission will permit it that we may submit an addition to our brief covering that paragraph.

Q. In some detail as to how the thing should be done. A. Right.

Q. After all, that is the core and substance of the whole thing; the rest of it is largely argument leading up to it. A. Right.

Q. I am sure the Commission will gladly welcome any concrete detailed suggestions. A. Thank you.

THE CHAIRMAN: We would indeed, Mr. Bickle.

THE WITNESS: Thank you, Mr. Chairman.

MR. MANN: Mr. Chairman, if you will permit me, and if Mr. Parker will excuse me, we have agreed with the mutuals that the briefs will be exchanged at the Montreal sitting next week, and that if possible at the opening of the second Ottawa session, which would probably be the 12th of March --

THE CHAIRMAN: No; the Commission will take recess after we come from Halifax, for obvious reasons.

MR. MANN: I am afraid we did not realize the obvious reasons, and we figured you would be in Ottawa again on the 12th of March. In that event with the permission of my friends, the hearing of the insurance companies could take place together at the beginning of the return session at Ottawa, if that would suit the Commission.

THE CHAIRMAN: We cannot fix the order now. There are people who have precedence over the mutuals, and your

clients, all the way from Vancouver East. It would not be fair to tell you that you will be first on such and such a date in Ottawa; that is obvious.

MR. MANN: Mr. Chairman, you are under some misapprehension; I am not suggesting we go on at a certain fixed time; I am simply endeavouring to suit the convenience of all concerned with regard to travelling and so on. That is why I said, at the beginning of the second session in Ottawa; but there is no doubt that the convenience of others has to be served, and certainly the convenience of the Commission. That is the reason I make that suggestion, if it is satisfactory to the Commission.

THE CHAIRMAN: Quite satisfactory to us; the order will be fixed in Ottawa when we come back.

MR. MANN: Then so far as our brief is concerned it is withdrawn until the exchange takes place.

THE CHAIRMAN: Has it been filed yet?

MR. MANN: It is on the way there by some train now. We will exchange our briefs at the Montreal sittings. I am afraid we will have to leave the hearings to suit the Commission's convenience, but they won't be until you return from the east:

THE CHAIRMAN: Quite; that is satisfactory.

H. W. MACDONNELL,

Counsel,
Canadian Manufacturers' Association,
examined:

BY MR. PARKER:

Q. You are appearing as counsel for the Canadian Manufacturers' Association. A. Yes.

Q. Before you read your brief could you just place on the record the manner in which this brief was prepared -- that is, whether it was circulated to members of the

Association, so that we may have an appreciation of whose views are being expressed. A. Quite so. Mr. Chairman and members of the Commission, the brief was prepared under the direction of a committee of the Association and then it was circulated to the members of the Association, who number, I may say, some 5,200, and they represent roughly 80 per cent of the manufacturing capacity of the country.

Q. And the points of the brief have been approved by that Association? A. That is so.

THE WITNESS: Mr. Chairman and members of the Commission, the brief is as follows:

Toronto, February, 1945.

"Submission of The Canadian Manufacturers' Association to the Royal Commission on Taxation of Cooperatives"

"In considering 'the present position of cooperatives in the matter of the application thereto of the Income War Tax Act and the Excess Profits Tax Act', the Canadian Manufacturers' Association assumes that the term 'cooperatives' is intended to cover not merely the primary producers' co-operatives (farmers', dairymen's, livestock men's, fruit growers', poultrymen's and fishermen's) specified in Section 4 of the Income War Tax Act, but also any agency which markets the products of its members or, by analogy, purchases goods for the specific account of its members, in the circumstances referred to in Minister of National Revenue vs. Saskatchewan Co-operative Wheat Producers Limited (1930, S.C.R.402). The circumstances were that the co-operative did not buy the crop but merely acted as a selling agency deducting its commission at cost, and the sale proceeds were allocated specifically to each members' account; and the Court held that the agency did not make a

profit or gain and therefore was not subject to tax. Such an organization, under this decision, could presumably deal in any commodities whatever and would not be limited to the class of products defined in Section 4 though it would not enjoy the privilege accorded by the Section of dealing with non-members up to 20 per cent of its total business. The issue therefore is much wider than that with respect to the primary producers' cooperatives.

"Intention of 1930 Exemption:

"The language of the exemption clause affords evidence that what Parliament had in mind was a species of club or association (usually a community affair), formed for the purpose of buying or selling collectively, each member of which received back annually his particular share of the surplus. The organization contemplated was one whose function was 'to market the products of the members under an obligation to pay to them the proceeds on the basis of quantity and quality less necessary expenses including reserves.' The obligation was to pay to members the whole of the proceeds less the expenses necessarily incurred in marketing the products and less necessary reserves, that is to say the reserves necessary to carry out the marketing operation referred to. It is a far cry, it is submitted, from the reserves necessary for the operation of such clubs or associations to the reserves which are admittedly necessary for the operations of many of the cooperatives of today which accumulate capital and compete among themselves and against private enterprise for new plants, new sources of supply and new markets. It is submitted that the onus is very much on those who maintain that Parliament in 1930 had in mind anything resembling the present reserves of many cooperatives when it spoke of 'necessary expenses

including reserves', in defining the cooperatives which were to be tax-exempt.

"Change in Tax Situation since 1930:

"In addition to the striking change -- a change, it is submitted, not merely in degree but in kind -- in the character of the operations conducted by the cooperative, since 1930, there has been an increase in taxation which was never anticipated in 1930. The increased rates under the Income War Tax Act together with the Excess Profits Tax, necessitated by the war (the cost of which is being only half met even by such high taxation) raise in an acute form the question whether the tax exemption granted to the cooperatives of 1930 should be continued to the cooperatives of 1945. For the situation, it is submitted, is that the tax exemption enjoyed by these organizations is tantamount to a subsidy equal to the tax which would otherwise have been collected from them, paid annually out of the national revenues, to which the business competitors of the cooperatives, among others, are obliged to contribute. Every increase in income tax, as has been pointed out, or any new tax imposed, from which these organizations are exempt (such as the Excess Profits Tax) has been a fresh subsidy granted to them by Parliament without actual consideration and without debate. It is to be noted that the most rapid growth of cooperatives took place in the years of highest taxation. That the amount of the annual 'subsidy' is substantial is evidenced by the recently published Dominion Government figures showing total membership of 500,000, total business of over \$250 million and reserves and surplus of \$46 million.

"The Cooperatives' Claim for continued Tax-exemption:

"To the charge that the tax exemption they enjoy constitutes gross discrimination against their independent competitors, the cooperatives reply that their operations do not give rise to a profit and are therefore not taxable. This argument is based on the doctrine that there can be no trading transaction unless there are two separate parties; and as in their case the buyer and seller, they say, are identical, there is no trading and any so-called surplus is not a profit or gain within the meaning of the Income Tax Act.

"This argument obviously turns on the soundness of the proposition that in the case of the cooperatives, buyer and seller are identical. As to this, we venture to refer to the view expressed by the United Kingdom Parliamentary Committee of 1932, to the effect that cooperative societies may have originated in associations of persons formed to purchase in bulk an article which they all require, each contributing to a common fund for the purpose, and any excess contributions being returned pro rata to the contributors -- in which case the refund could not be regarded as a taxable profit, but that the registered cooperatives of 1932 in the United Kingdom were legal entities no more identical with their members than a joint stock company is identical with its shareholders. The Report of the Committee continues: 'The existence of this entity seems to us to be a matter which cannot be ignored in considering whether there is true mutuality of trading, or not. If any real "mutuality" existed we should expect to find a situation in which the contributor retained as contributor an individual interest in his excess contribution. We do not find that. A contributor cannot point to any part

of the undistributed surplus on trade with members as representing his contribution and claim a right to dispose of that part of the surplus.' The fact, it is submitted, is that the cooperatives are independent legal entities, the exclusive owners of their respective businesses and assets in exactly the same way as an ordinary joint stock company owns its business and assets. Moreover when cooperatives amass capital and reserves they derive income from sources other than ordinary cooperative trading, such as income from capital employed in the business, income from outside investments and gains on speculation and inventory holdings. It is impossible, it is submitted, any longer to maintain that the surpluses derived from the operations of many of the present-day cooperatives are not the result of trading and therefore cannot be regarded as profit within the meaning of the Income Tax Act. That, as is well known, was the conclusion set out in the majority report of the United Kingdom Royal Commission of 1919 and the unanimous report of the Parliamentary Committee of 1932; both rejected the 'mutual trading' doctrine of the cooperatives and recommended the cancellation of the special exemption enjoyed by the cooperatives whether wholesale, producer, distributive.

"Disposition of Cooperatives' Profits:

"If cooperatives are indistinguishable from other traders in respect of the sources of their profits, the same, it is submitted, is true of the disposition they make of them. These are either distributed in dividends (whether the so-called 'patronage' dividend or the ordinary dividend paid on capital invested) or remain undistributed as reserves, in exactly the same way as is done by ordinary joint stock companies.

"In respect of all three forms of treatment of their profits, it is to be noted that the cooperatives enjoy a marked advantage over their tax-paying competitors.

"Neither ordinary nor patronage dividends being under our present law a deductible expense for ordinary joint stock companies, the latter are unfairly handicapped in competition with tax-exempt cooperatives.

"As regards the reserves put aside by cooperatives, which appear indistinguishable from the profits ploughed back by any ordinary business for purposes of providing additional working capital, or acquiring new plant or equipment, it is obvious that if they remain untaxed, while the reserves of ordinary companies, with the exception of valuation reserves, are taxed, the ordinary companies are seriously handicapped. This situation is inequitable as between the shareholder of an ordinary company and the members of a cooperative. But the inequity does not stop there. The taxes paid by ordinary corporations are borne not by the shareholder alone but in part by the purchasers of the company's goods and in part, possibly, by the employees. On the other hand, the customers of the cooperative secure the goods which they require at a price which contains no element of tax and thus enjoy an unfair advantage over purchasers of goods purchased by independent operators. So that there may be substantial inequity as between these two classes of purchasers. All along the line the exemption from taxation they enjoy puts the cooperatives in a position of very great advantage over their tax-paying competitors.

"The Solution Proposed:

"The simplest and most equitable solution of the problem is, it is submitted, that recommended by the United

Kingdom Parliamentary Committee of 1932 and adopted in the Finance Act amendments of 1933, viz. that all transactions of a cooperative with its own members by which a profit or surplus is earned, which would be treated as profits of the trade if they were transactions with non-members, are made liable to tax; but any discount, rebate, dividend or bonus granted to members or other persons on account of their transactions with the cooperative, provided it is calculated according to the amounts paid or payable to or by these members or other persons, or according to the magnitude of their transactions, is to be excluded from the profits, by being treated as a trade expense.

"This amendment established equitable taxation as between cooperatives and ordinary joint stock companies in England.

"In order to achieve the same result in Canada, it would be necessary to make cooperatives liable to tax on their profits in the same way as joint stock companies, but allow a deduction in respect of patronage dividends, as defined above, (provided these have actually been paid), both to cooperatives and to ordinary joint stock companies or other businesses, as this is not allowed at present to the latter. Finally, and most important of all, when dividends are paid on capital either by a joint stock company or a cooperative, it would be necessary to adopt the United Kingdom principle of crediting to company shareholders or cooperative members as the case may be, on their individual income tax, all taxes paid on such dividends at the source. Such a change, in addition to bringing about equality of treatment as between company shareholders and

cooperative members, would remove the present gross inequity as between both of these groups on the one hand and bondholders on the other.

"It is of interest to note that the dissenting Commissioners of the 1919 United Kingdom Royal Commission, while taking the position that the cooperatives should not be taxed on any part of the receipts arising from transactions with their own members, said:

'If there were in the United Kingdom as there is in the United States a corporation tax levied specially on corporations as such, it would no doubt be proper that a cooperative society should, as a separate legal entity, be made liable to that tax.'

"Such a solution of the problem is desirable, it is submitted, not merely in order to achieve equity between the cooperatives and their present day competitors, but also from the long range national economy point of view. If the present tax exemption of cooperatives is allowed to continue, it appears likely that a large part of certain kinds of business in Canada will before long be done on a cooperative basis. It may be that that is the road we want to travel but if it is we should do so deliberately and with our eyes open. We should not, it is submitted, adopt the cooperative system of doing business via the oblique method of subsidizing the cooperatives to the point where their tax-paying competitors cannot live.

"If the cooperative system can demonstrate that in certain fields it is sounder than the alternative system it deserves to supersede it. But it should be called upon to prove itself superior in free and equal competition. If it is to be given the enormous advantage of exemption

from taxation, it will be impossible to judge of its merits as compared with those of the alternative system. What the situation calls for, in the national interest, to say nothing of the interest and rights of those who have in good faith invested their capital in the businesses which compete with the cooperatives, is 'a fair field and no favour, and let the best man win.'

Mr. Chairman, may I say that we have had prepared by a very competent tax expert -- as a matter of fact it is Professor D. C. MacGregor of the University of Toronto -- an analysis of revenue and tax revenue and of national income generally with a view to showing how much revenue would be lost if our proposals were adopted, and, for example, how much the personal income tax would have to be raised in order to make up the loss and so on. I would like to ask the permission of the Commission to put that in at a later date.

THE CHAIRMAN: Is it ready now?

THE WITNESS: Yes; as a matter of fact it is just being mimeographed today.

THE CHAIRMAN: Perhaps you could file it with the Registrar as a supplement to your brief?

THE WITNESS: Very well.

THE CHAIRMAN: It would be very interesting.

MR. FRANCIS: I assume that Professor MacGregor will be available for cross-examination.

THE CHAIRMAN: I assume so, Mr. Macdonnell.

THE WITNESS: Yes, Mr. Chairman, I think we can undertake that he will.

THE CHAIRMAN: Shall we say, then, that his memorandum will be filed during the day or tomorrow?

THE WITNESS: Yes, Mr. Chairman.

BY MR. PARKER:

Q. Mr. Macdonnell, if I followed the brief correctly you argue on the assumption that there is discrimination between these two types of operations; you take that for granted in your argument? A. Yes.

Q. Taking that for granted, do you decline to recognize at all that there is a fundamental difference between the method by which the cooperatives do business and that by which private companies do business; or do you say they are identical? A. No; I think we could not say they are identical, but we can consider that they are sufficiently alike, as we have tried to develop in our brief, to make it inequitable that there should be this difference made between them in the matter of taxation.

Q. Would you particularize as to what you include in the profits of cooperatives that you are suggesting ought to be taxed? Assuming that the present system of taxation as applied to ordinary joint stock companies is to continue; in order to make taxation of cooperatives equitable -- parallel, I suppose you mean -- on what do you suggest they should be taxed? Is my question clear to you? A. Well, taxes on all their reserves and so on.

Q. All the reserves; that is No. 1 -- they should be taxed as profits, should they? A. Yes. They should be taxed on their reserves the same as joint stock companies are.

Q. Most of these cooperatives, I take it, set aside statutory reserves, which they are permitted to have. You include them? They should be taxed? A. As a matter of fact I think I simply have to make this statement, that we are adopting the view taken by the British parliamentary committee that the income of the cooperatives to be taxed should be arrived at in exactly the same way as the income of joint stock companies.

Q. There may be some differences between the way cooperatives operate over there and the way they operate here. A. I am afraid I cannot help you on that.

Q. I am not seeking to examine you on it, but I would like to get a concrete suggestion if I could. Assuming that the present corporation tax is to continue, you are suggesting that these cooperatives should be taxed on something, and I am just trying to find out what it is. You suggest their reserves. Take the interest paid on their share capital; do you say that should be taxed as profit? Some of them have share capital. A. Well, I don't think I can help you on that. I would like to --

Q. And then these patronage dividends -- what shall I call them; "hold-backs" is the best word; as you know, the procedure in many cases is that out of the savings or surpluses or whatever is the proper way to designate them, they pay back certain amounts to the patrons, do they not? A. Yes.

Q. In certain other cases they merely issue certificates of varying types under which they will pay at some future date. A. Yes.

Q. Do you include in the items that should be taxed in the hands of the cooperative society, first, the amount allocated or credited to the members but not paid, and, secondly, the amounts actually paid? A. So far as the patronage dividends are concerned we are proposing that they should be treated as trade expense.

Q. That the patronage dividend be deducted as trade expense. A. Yes.

Q. Would you include in that deduction the amounts allocated to the patrons but not paid? A. No.

BY THE CHAIRMAN:

Q. You say in your brief, "provided these have actually been paid"? A. Yes.

Q. I take it you do not approve of the revolving door system of payment of patronage dividends. A. No; our feeling was it must be shown that the patronage dividends have actually been paid.

Q. That is for the year in which they are earned. A. Yes.

MR. PARKER: That is what I wanted to get at.

BY THE CHAIRMAN:

Q. To that extent you are in accord with the decision of the committees which sat in the old country? A. Yes.

BY MR. NADEAU:

Q. Have you any information about British taxation experience since 1933? A. No, I have not.

BY MR. ARNASON:

Q. I wonder if I might ask you a question arising out of your brief. In your brief I take it you recommend the adoption of what would in effect constitute the policy recommended by the 1933 British Committee. A. That is so, yes.

Q. Now, in one part of your brief you refer to the discrimination which exists in that cooperatives are permitted to deduct patronage dividends before taxable income is arrived at, where they are taxable, but that is not permitted to private business. In the event that private business were allowed to deduct patronage dividends paid to the customers of such businesses before arriving at taxable income, would that be a step in removing what you would term discrimination, even if no further steps were taken?

A. Yes, I suppose it would. It would be a very slow one, but it would be a step in that direction, yes, I would say.

BY THE CHAIRMAN:

Q. That however would not dispose of your criticism that reserves remain untaxed. A. Quite so.

Q. Reserves from whatever source they come. A. Yes.

BY MR. VAUGHAN:

Q. Suppose the cooperative carries on its affairs in such a way that there is no profit; their price to the members is equal to the cost of the merchandise less expenses; have you any suggestion in that case? A. I am afraid the question of the consumer cooperatives was not one that we had in mind particularly when we drafted our brief; we were thinking of the other. But I realize that is a special problem. I am afraid I cannot help the Commission on that.

Q. Let us take the producer cooperative, and suppose the cost of handling the goods is reduced to the point where there is no profit; then what would you say as to that?

A. Two things, Mr. Commissioner. It seems to me first of all that the taxation authorities -- the Minister -- would have to be given discretion to say that that would not be allowed to be carried beyond a certain point. It seems to me you would have to give the Minister very wide discretion to deal with cases of that kind, and to say that the prices had been reduced in a way that was done simply to evade taxation. I think you would have to give the Minister wide discretion on that. On the other hand it seems to me there is this safeguard: I take it the cooperatives could not safely go very far with that because they would require reserves against the time when they had losses, and so on.

Q. Yes, up to a point. They would require certain reserves. A. That is one safeguard, but the real anchor to windward there would have to be discretion given to the Minister. I admit that is pretty vague but it is the only suggestion I have to make.

BY THE CHAIRMAN:

Q. You would say, no profit, no taxes, would you?

A. Yes; if there is no profit. But as I say, if it can be shown to the satisfaction of the Minister that prices have been reduced with a view to eliminating profit, it seems to me he ought to have authority to disallow that.

Q. And we come to the same old question, what is a profit. A. Yes.

BY MR. VAUGHAN:

Q. The principle of a cooperative is to operate at cost -- not profit, but at cost. You find that in the by-laws; that is the principle or policy. Suppose they carry that out; how could you make this recommendation operative? A. But they do accumulate reserves.

Q. Well, to the extent that they create reserves, that is all right. But suppose they disburse everything except what is needed for safe reserve; would you say that a consumer cooperative should be free from tax? A. As a matter of fact I do not want to commit myself to that proposition. As I say, we were not addressing ourselves specifically to the consumer cooperative problem. I admit the very great difficulty if cooperatives undertake to operate in such a way that there is no profit. I can only say that I think the taxing authorities should be given discretion in that matter.

BY MR. BERNASON:

Q. So far as the taxing of reserves is concerned,

would you say there is a difference between the reserves of a cooperative which are not credited to the members in any way, and those so-called reserves of the cooperative which are so credited and become a liability to the members -- do you follow me? A. Yes.

Q. I take it you class these two types of accumulations as reserves. Now, from the taxation point of view would you say that there was any difference between the two? In one case there is a definite liability on the part of the organization to pay this deferred surplus to the members. A. My submission would be there should be no distinction there.

BY MR. ELLIOTT:

Q. You say that there is considerable difficulty involved in your proposal, but I am not sure whether it is realized how much difficulty there is in it. Mr. Vaughan has suggested that cooperatives in their by-laws or articles, sometimes in the Act, are referred to as companies which have the purpose of carrying on the business of their members at cost. Consequently if they actually did that it seems to me it would be very difficult for the Minister to prove that they did it simply for the reason of evading taxes. Have you any further suggestions as to how we might advise the Minister to proceed in that matter?

A. May I ask whether you are contemplating a case where the cooperatives deal exclusively with their own members?

Q. That was the case I was thinking of. We have encountered cases where anyone who deals with a cooperative is necessarily on that basis. A. I am sorry; I am afraid I cannot help you.

BY THE CHAIRMAN:

Q. By the mere fact of dealing with it he becomes

member. A. According to some of the constitutions, yes.

BY MR. ELLIOTT:

Q. You would not go so far, then, as to suggest to us that the Minister in all cases, whether of cooperative or corporation, should have the power to decide whether

particular price change had been made for the purpose of evading taxes. A. I think the Minister would have to be given very wide discretion in the matter. There is a precedent for that in the Income Tax Act already.

Q. Both for non-cooperatives and cooperatives.

A. Yes, that would be my suggestion.

BY THE CHAIRMAN:

Q. Do you attach much importance, Mr. Macdonnell, to the idea that the reserves should be paid out as so-called patronage dividends to each patron in the course of the same year -- the year in which they were earned?

A. That is to say, that that should be done if a cooperative is to be regarded as a true cooperative?

Q. Quite so; is that your view? A. I should think if that were done it would qualify as a cooperative.

Q. Therefore you criticize the revolving door policy of building up reserves. A. Yes.

BY MR. VAUGHAN:

Q. You would leave much to the discretion of the Minister, but the Minister has that discretion now. Really what is needed is something definite for the Minister to follow, for the government to follow in regard to the matter of taxation or non-taxation of cooperatives. He has all that discretionary power now; what is wanted is something definite set down as a law to be followed. Do you think it is possible for your organization to offer any suggestions

along that line? A. Yes; I admit we have not produced anything very concrete on that; but may I go back to my people and try to work out something on that?

MR. VAUGHAN: That is for the chairman to say.

THE CHAIRMAN: Quite.

THE WITNESS: We will do our best.

THE CHAIRMAN: We are very much in search of information, Mr. Macdonnell.

MR. PARKER: Perhaps I may suggest that one criticism which comes to us is that there is far too much discretion already in the hands of the Minister. Are you one of those who advocate that there should be additions to the already long list of things now in the discretion of the Minister, estimated by some statisticians at sixty-seven, I think it was; do you want to add to these, or do you think speaking generally he should have less?

THE CHAIRMAN: Mr. Macdonnell may not want to tread on that grass, Mr. Parker.

MR. PARKER: Well, if he doesn't, perhaps they could bear it in mind in considering the matter.

THE WITNESS: We do not like too much discretion given to taxing authorities in general, but there are some cases in which we cannot get away from it.

MR. PARKER: We will now take No. 7 on the list, the Canadian Retail Federation.

MR. C. F. H. CARSON: May it please the Commission, I know you have had a long journey from the west coast, with many stopovers, and I gather that during the course of these stopovers you have been laden with briefs and have heard many counsel.

THE CHAIRMAN: This is the ninety eighth,
Mr. Carson.

MR. CARSON: Then I am not so far out in principle. I am sure the Commission will scarcely expect that all submissions that are to be made this morning will be entirely new and refreshing. At any rate, even though they bear in some respects a similarity to other submissions that have been made, the Federation that I represent has throughout Canada a very large and widely representative membership and in that sense is a strong representative voice, and I am sure the Commission will be desirous of knowing the position that is taken by that Federation in respect to the problems that are before the Commission. Now then, in our brief, Mr. Chairman and members of the Commission, we have not gone into, nor do I propose in my oral representations to go into, matters purely of detail connected with cooperative history or cooperative principles or economic principles or statistical data. The Commission has already been furnished with considerable detail and statistics on such matters, and I am relieved of any such task by other briefs that have been filed giving that information. But the problems before the Commission and the ramifications and complexities that are bound to develop out of such problems can in my submission be reduced to one simple fundamental issue, and it is this: Is there inequity in the present taxation position of cooperatives in comparison with the taxation position of businesses directly competing with them? That is the real basic question, in my submission. If it appears that taxation inequity exists, there should be no further controversy, because it should be indisputable that such

inequity must be removed. Inequity of taxation in my submission has no place in our national economy.

The determination of that one fundamental issue in this inquiry into the three matters which are lettered (a), (b) and (c) in the order in council -- I do not need to read them to the Commission; I am sure they are indolibly written in their minds -- involves in my submission after an inquiry into these three matters the drawing of attention by the Commission in its report to facts which disclose an unjust, inequitable and unfair basis of taxation; and if such inequities exist it cannot be otherwise than in the public interest that the existing laws be amended so as to displace such existing inequities, and this in my submission should be the recommendation of the Commission.

Now, turning to our brief, we have described in the opening paragraph the composition of the Federation:

"1. The Canadian Retail Federation is an organization representing a number of retail trade associations comprising a wide variety of retail merchandising and service establishments from coast to coast.

"An important unit within the Federation is the Retail Merchants' Association of Canada, a national association of retail merchants of all classifications, incorporated under a special Act of the Dominion Parliament in 1910 (9-10 Edward VII Chapter 156). This association has long been a spokesman for the individually or family owned type of retail establishment, and represents a cross-section of retail business which has played a very important part in community development since Confederation. Comprised within its membership are approximately 15,000 such retail stores doing business throughout Canada."

I believe the Commission has already before it the brief submitted by the Saskatchewan branch of that organization and the brief submitted by the Manitoba branch of the same organization. Continuing:

"In addition to this important group, the Federation includes in its membership a majority of the large department stores across Canada, as well as the chain organizations in the food, clothing and specialty fields.

"Trade associations affiliated with the Federation include The National Shoe Retailers' Association, The Canadian Jewellers' Association, The Canadian Pharmaceutical Association, The Furriers Guild of Canada, The Canadian Bicycle and Sports Goods Association, The Canadian Restaurant Association, and a number of provincial trade organizations.

"The Federation is thus able to state that it is the most representative retail trade organization in the Dominion.

"2. Some idea of the scope and magnitude of retail business in Canada may be gathered from The Report of the Dominion Bureau of Statistics on Retail Merchandise Trade in Canada for the year 1941, the last period for which complete figures are available. This report reveals that there were then in Canada a total of 137,331 retail merchandise stores, which did an annual business of \$3,440,901,700. There were 118 individual kind-of-business classifications. Of the total number of stores mentioned above, 128,840 were classified as independent and did 81.1 per cent of the total retail trade. The report shows that the 137,331 retail establishments employed an average of 392,608 employees and had an annual pay-roll of \$314,438,300.

In addition, there were 131,823 proprietors engaged in the business."

The retail business is and has been for many years a major factor in the national economy of Canada, in the way of providing employment, facilitating the distribution of merchandise and making it conveniently available, and contributing in substantial amounts to the tax requirements of the national treasury. Continuing:

"The service rendered to the community by retail business is so well known as to require no emphasis. Likewise, it seems unnecessary to emphasize that retail business pays substantial amounts of income and excess profits taxes. It would be interesting to tabulate the total tax figures, but unfortunately this is not possible because there are no sources available to the Federation from which such figures can be adduced.

"3. The Federation and its members, as well as the retail trade generally are seriously affected by the present privileged treatment accorded to cooperative organizations in the matter of income and excess profits taxation.

"They -- that is, the members of this Association -- are primarily concerned with and this brief will be limited to the relative positions of retail enterprises and those cooperative organizations engaged in competing operations and the result of the tax privileges now enjoyed by the latter."

We may depart from that a little, Mr. Chairman, in some submissions relative to the cooperative principle generally, but I think in a general sense our brief is limited in that way. Continuing:

"4. The Federation takes the stand that under a free economy, any legitimate form of retail distribution which adequately fills a public need is fair competition, provided, however, that such competitive form of retail distribution does not receive any special favours or privileges, particularly in respect of taxation.

"The Federation believes, however, that the co-operative organizations now enjoy advantages under the tax laws and their application which are grossly unfair to the retail businesses with which they compete, and which, in addition, cause substantial and unwarranted losses to the Dominion Treasury and are detrimental to the best interests of Canada as a whole.

"The object of this brief is to draw attention to the nature and extent of these advantages and to urge that taxation with respect to retail businesses and competing cooperatives should be the same.

"5. Consumer cooperative enterprises engaged in retail business have been organized by or on behalf of consumers or have developed from or within producer organizations which have gained experience in cooperative methods. Though such enterprises may be operated by unincorporated associations, the vast majority today have been incorporated. Some have been incorporated by special acts of parliament or of the provincial legislatures and others under The Companies Act (Dominion) or appropriate provincial legislation. Each province has legislation under which such organizations may be incorporated.

"When incorporated such organizations are legal entities separate and distinct from their members or shareholders. As a general rule, they may sue and be sued in

their own names, have perpetual succession, a common seal and limited liability. Capital may be provided by the members or shareholders by the purchase of shares or by loans to the company. Dividends and interest may be paid on the capital so provided. Elected boards of directors supervise the affairs of such corporations and managers are appointed. They may and do invest their surplus moneys and receive rent, interest or dividends thereon.

"With few if any exceptions, all such enterprises may and do make sales to others than their members or shareholders and generally at prevailing market prices. If profits, after costs, depreciation and reserves, permit, dividends are as a rule paid to the shareholders or members in proportion to the amount of their purchases rather than in proportion to their capital contributions.

"Such dividends are commonly known as 'patronage dividends'. Dividends are sometimes paid to non-member purchasers, the amount of which is determined in the same manner, but almost invariably at a rate lower than that paid to members or shareholders. Cooperative corporations, not their members, own the assets and conduct the business -- buying, selling, advertising, and managing -- by methods similar to those established in the retail trade.

"The only difference between consumer cooperatives and other retail enterprises lies in the description given to the moneys available for distribution. Cooperative enterprises generally adopt the word 'savings' as the description of such moneys and distribute them under the name of 'patronage dividends' in proportion to purchases. Other retail corporations recognize such moneys as profits and distribute them in proportion to the number of shares held.

"The basis of the patronage dividend paid by co-operatives is identical with the basis of the dividend paid by other companies -- in that the amount or rate of dividend is determined by the profits derived from the business as a whole.

"The word 'savings' is a misnomer because, as indicated above, the operations of the cooperatives are identical in every respect with the operations of other retail corporations."

Let me put it in this way: the cooperatives carry on the simple retail operation of buying goods at "x" dollars and selling them at "y" dollars, so that the difference after deducting expenses of operation is "z" dollars, and that difference in my submission is profit. They necessarily have premises in which the business is carried on; they employ managers and clerks to carry on the business, and generally their merchandise is available for purchase by the public at large. On that footing, if I am right in my premises, they carry on a trade or business in the truest sense. Continuing:

"It may be thus seen that in the case of cooperatives their structure, business methods and sources of distributable funds are for all practical purposes the same as those of ordinary retail enterprises. But when it comes to taxation, there is an amazing difference in their treatment.

"6. The income of all retail businesses in Canada (subject to the prescribed exemptions) is taxed under The Income War Tax Act and The Excess Profits Tax Act. On the other hand few, if any, cooperatives are taxed under either Act.

"7. The freedom from taxation in the case of cooperatives appears to have been obtained on the theory that their so-called 'savings' do not come within the definition

of 'income' in section 3 of The Income War Tax Act or that such savings are expressly exempt by the provisions of clauses (g) and (p) of section 4.

"In the case of consumer cooperatives, it is respectfully submitted that their so-called 'savings' are in fact profits that clearly fall within the above definition of income and that few, if any, such organizations qualify for exemption under the true interpretation of clauses (g) and (p). If, however, there is any room for doubt that such so-called 'savings' come within the above definition of 'income' or are exempt under the provisions of clauses (g) and (p) it is respectfully urged for the reasons set forth in this brief that the legislation should be amended so as to make it clear beyond question that the so-called 'savings' are in reality taxable income.

"8. The material provisions of both statutes are quoted as follows:"

Then I do not need to read those provisions, but we thought it convenient to have them at this stage of our brief where we are making some point of what the language meant. We set out the definition of "person" generally under the Income War Tax Act, that it includes body corporate; and then the definition from Section 3 and the exemptions of 4 (g) and 4(p). Then we quote from the Excess Profits Tax Act the definition of "person" again, and the definition of "profits"; on page 7, persons liable to tax, and profits not liable to tax. Now may I just pause there, Mr. Chairman and members of the Commission to suggest -- and I may be anticipating something that is contemplated -- that if the Commission has not already had made available to it, it would be useful in this inquiry to have all regulations, if there are any, of the Department,

and all rulings and directives that have been issued or are in circulation in connection with the application of these provisions; because it does seem to me that under the order in council that is an essential matter of inquiry in connection with the problems entrusted to the Commission. Under clause (a) of the order the Commission is asked to inquire into the present position of cooperatives in the matter of the application thereto of the Income War Tax Act and the Excess Profits Tax Act, 1940. We all must recognize that the Income War Act gives rise to questions of interpretation, debatable questions, and those questions must necessarily be considered by administrative officers in Ottawa and of the collection centres in Canada.

THE CHAIRMAN: That material is all available to us, Mr. Carson.

MR. CARSON: I am very glad to hear that, Mr. Chairman.

THE CHAIRMAN: This might be a good point at which to adjourn, I think.

The Commission adjourned at 12.45.

.....

The Commission resumed at 2.15 p. m.

MR. PARKER: Mr. Chairman, before my learned friend continues may I say that I have just been handed an appendix to the submission of the Canadian Manufacturers' Association, as was mentioned this morning; ten copies to be filed. We can look at that later and possibly if there are any questions to ask they can be asked.

THE CHAIRMAN: Mr. Carson, will you continue?

MR. CARSON: I was glad to learn before the adjournment, Mr. Chairman, that the Commission had been furnished with

all rulings and regulations that were applicable or pertinent to the matter of the taxation of cooperatives. May I with respect earnestly urge upon the Commission that these rulings should receive most careful study with a view to considering whether they are intra vires of the legislation as it now stands and as to whether they are consistent throughout Canada. I suggest that because, as one may well appreciate, in legislation of this kind rulings emerge out of an individual's interpretation of particular legislation, and there is room for difference of opinion as to interpretation here. Certainly it is to be desired that there should be uniformity throughout in connection with a matter of this importance.

Now, returning to the brief, after quoting the legislation on pages five, six and seven, we come to paragraph 9 at the bottom of page 7:

"9. It is believed that cooperatives have adopted the practice of deducting patronage dividends as a business expense before arriving at the so-called 'savings'. No other corporation is permitted to deduct dividends paid to its shareholders before arriving at its taxable income. It is respectfully urged that this inequity be removed."

May I say that that is an inequity so transparent in my submission as to require no elaboration whatsoever. Continuing:

"This Federation has no knowledge as to whether patronage dividends are taxed in the hands of the recipient. If not, it is respectfully submitted that so long as dividends paid by an ordinary corporation are taxable in the hands of shareholders, patronage dividends should be similarly taxed.

"10. In the case of wholesale cooperatives not paying such taxes, a further advantage accrues to the consumer cooperatives in that such wholesalers are enabled as a result of their tax saving to pay higher patronage dividends to the consumer cooperatives who are their customers and usually their owners.

"11. Few cooperatives distribute all their profits in any year or period. The tax advantages that have been referred to have enabled the cooperative organizations to amass large reserves at a time when competing enterprises are endeavouring to maintain their positions in spite of the heavy tax burdens imposed upon them. These reserves have in large part been expended in developing and extending the operations of the cooperative organizations and in the purchase of competing organizations and in the formation and financing of wholesale enterprise. This expansion increases the severity of the competition faced by the remaining retail stores."

Then may I just interject a comment there, that ordinary retail corporations can only provide for future expansion if they have anything left to put aside in reserves after payment of the heavy income and excess profits taxes that now exist. Continuing:

"12. Appended hereto as Exhibit 'A' are tables illustrating the result of the difference in tax treatment as between consumer cooperatives and comparable businesses."

If the Commission please I will not stop here to refer to these tables. I have with me an accountant who can explain them, I am sure, much better than I can. Continuing:

"13. The tax exemptions enjoyed by cooperatives

constitute, it is submitted, a subsidy granted to one form of retail enterprise partially at least at the expense of the other. The unchecked continuation of these privileges must inevitably lead to the complete exclusion of individual, family and corporate owned enterprises from the field of retail distribution.

"14. The original purpose of the mutual or cooperative movement was to obtain the benefit to be derived from group purchases of commodities in bulk. Such benefit arose from the savings effected by the group or certain members of the group performing functions or undertaking risks which would otherwise be performed or undertaken by persons engaged in trade.

"The only true form of consumer mutual or cooperative endeavour is that in which a group of individuals provide funds for the bulk purchase of a specified commodity in the proportions in which they propose to divide the commodity. The commodity is then purchased and distributed in such proportions. If funds have been provided in excess of requirements such surplus is divided among the contributors in the same proportions. In such a case the term 'surplus' as applied to such excess funds is fitting and the term 'profits' would be inappropriate. Immediately upon purchase each member of the group can readily identify and demand his share of the commodity and earmark and control the destination of his share of the surplus funds.

"When any departure is made from this simple formula, the operations of the group cease to be mutual or cooperative in the true and strict sense.

"For instance, if the group purchases various commodities in bulk over a period and makes distribution at the end of the period, it follows that unless the

transactions are kept entirely separate not every member of the group will contribute his proportionate share of funds for the purchase of any one commodity. The surplus arising from any one purchase will not be identical with that arising from any other and it would be difficult if not impossible to determine any member's true share of the surplus. Each member would necessarily receive more or less than his true share.

"Ownership in the undistributed portions of the commodities must remain in the group as no member could identify any part as being his own, and since he could never accurately determine his true share of the surplus his right to determine its destination is lost. If the whole surplus be not distributed at the end of each transaction but reserves be set up, each member would receive benefits that had no direct relation to the contribution he made. If the membership changed from time to time each new member would receive benefits out of all proportion to his contribution. In such circumstances the excess funds could not properly be termed 'surplus'; they are in reality 'profits' arising from an ordinary trading operation.

"When the group transactions have departed from the original basic idea and have developed into corporate enterprise and operation along the lines earlier described, it is submitted that all traces of the original mutuality and cooperation have vanished. It has become an ordinary trading enterprise motivated by the same purpose as any other trading enterprise, namely the making of a 'profit'. The ultimate destination of that profit once it has been earned cannot alter its true nature -- it is still a profit.

"15. The fund available to cooperatives for the payment of patronage dividends consists of the profits

arising from trade with the public and income from investments. The profits are increased by sales to the public at large. Thus patronage dividends cannot truly be said to represent merely the return of surplus funds provided by the member or shareholder for the purposes of the enterprise.

"16. The submission that the modern consumer co-operative in Canada is in reality an ordinary retail trading organization is supported by the findings of The Chancellor of the Exchequer's Committee appointed in England in 1932 to inquire into the position of cooperatives in relation to income tax. The cooperative organizations in Canada are largely modelled on the British organizations. This Committee reported in part as follows:"

I will pass over the Report of the Committee.

THE CHAIRMAN: We have read it, Mr. Carson.

MR. CARSON: I will continue with paragraph 17:

"17. Consumer cooperative activities in Canada originated as far back as 1861 when a cooperative store was opened at Stellarton, N. S. When the Income War Tax Act was introduced in 1917 there were relatively few co-operatives in existence and the movement had met with little success. Their freedom from taxation was then relatively unimportant to the rest of the community. At that time such organizations were exempt in England where the cooperative movement originated. The volume of business transacted in Canada was insignificant and the tax rates were low. The resulting tax revenue, if such operations had been taxed, would probably not have paid the administrative and collection costs. It may also be assumed that because of the economic status of the interested groups, which were largely associations of primary producers and wage earners, it was considered desirable to encourage such

groups. This encouragement is reflected in the enactment in 1930 of section 4 (p), following a judgment of the Supreme Court of Canada holding that the income of a milk producers cooperative company in British Columbia was taxable under the Act as it then stood. (Fraser Valley Milk Producers Association v. Minister of National Revenue (1929) S.C.R. 435).

"18. Compared with the relatively insignificant position of cooperatives in 1917, figures compiled by The Dominion Bureau of Statistics in its Final Report on Merchandise Trade in Canada issued in 1944 reveal that in 1941 there were 445 cooperative retail stores in Canada doing \$19,839,000 worth of business annually in consumer goods.

"More recent figures from the Province of Saskatchewan indicate a phenomenal growth in that province. The official report issued by the Saskatchewan Department of Agriculture for the year ending April 30, 1943, states that there were 488 cooperatives transacting retail business in that province in 1942, and 524 in April 1943. Sales of these organizations increased in 1942 by more than \$2,500,000. It is also stated in the above report that during the same period a number of cooperative retail associations expanded their operations under permit from The Wartime Prices and Trade Board through the purchase of retail stores.

"Concurrently with this growth in Saskatchewan, it is interesting to note that the number of consumer cooperatives in the Province of Quebec increased from 11 in 1939 to 40 in 1940, and to 110 in 1943 with a total business in that year of well over \$2,500,000.

"It will thus be seen that the consumer cooperative movement has not merely departed from the original concept

of mutual trading among primary producers and wage earners, but has also achieved the status of what is popularly known as 'big business' in terms of total volume.

"19. Concurrently with the development of the consumer cooperative movement the rates of taxation on other forms of retail enterprise have been increasing sharply. This increase in tax rates in recent years has caused the tax freedom of consumer cooperatives to grow progressively more serious from the standpoint of ordinary retail enterprises.

"As a result of this favoured position the cooperatives have been able to distribute patronage dividends and accumulate reserves in amounts undreamed of in 1917. The Co-operative movement is expanding at an accelerating tempo and is acquiring competing retail enterprises, many of which can no longer survive competition so grievously unfair. The expansion of the movement directly increases the volume of business which is tax exempt and results in a direct tax loss to the state.

"The severity of the tax loss in 1941 is demonstrated by the fact that farmer cooperatives alone in that year had sales of \$242,158,305, and had accumulated reserves or profits of \$42,900,000. With the continued expansion of the movement as a whole, the tax loss to the state in respect of all cooperatives must be steadily increasing and must now be very large.

"20. That the Dominion Treasury is in urgent need of tax revenue requires no emphasis. There can be no doubt that this need will continue not only for the duration of the war but for a long period after the war for post-war rehabilitation and pensions, for the financing of post-war projects and for the discharge of heavy debt obligations

incurred during the war.

"The national treasury is now losing the taxes that would have been derived from the volume of business now transacted by cooperatives if this business had been left in the hands of ordinary trading companies. If patronage dividends are not being taxed (as to which the Federation has no knowledge) the state is also losing the tax revenue which it would have received had such dividends been paid to the shareholders of an ordinary trading company.

"21. Apart altogether from the direct tax loss, the result of this discrimination must be to increase the burden of taxation imposed on the public generally as well as on competing businesses. The latter are compelled not only to meet favoured competition but also to contribute indirectly to the prosperity of the favoured competitors. It is self-evident that the present taxpayers of Canada are being compelled to pay higher taxes as a result of the cooperative tax freedom. It is respectfully submitted that this is neither equitable nor economically sound.

"22. A tax policy which in effect subsidizes a particular economic group at the expense of remaining groups is unsound in principle for several reasons including the following: the subsidized group enjoys the protection and benefit of the laws of the country and the services of the state, including in war time the protection of the armed forces, all without payment of a proportionate share of the cost involved; the per capita cost of government to the remaining groups is increased; the policy is a direct encouragement to other economic groups to seek special treatment, thus tending to create unrest and friction in the body politic and to cause instability in the national economy.

"23. In the present national crisis the financial needs of the country are of overwhelming urgency. It is anything but equitable that in times of such stress one group should continue to enjoy tax freedom which no other group could hope to obtain.

"24. The application of equitable principles of taxation would not, it is submitted, jeopardize the legitimate expansion or continued prosperity of the consumer cooperative movement.

"25. Until 1933, the cooperative movement in Great Britain received similar favoured tax treatment. In that year, after an inquiry by a committee appointed by The Chancellor of the Exchequer these privileges were withdrawn and the cooperatives and their shareholders have since been taxed on exactly the same basis and at the same rate as ordinary corporations and their shareholders. Nevertheless, it is evident that the withdrawal of this privilege has in no sense hampered the operations of the British cooperatives, who, according to an item appearing in the November 1943 issue of 'The Co-op League News Survey', did a business exceeding one billion dollars. The following quotation is made from that publication:

'The British consumer cooperative societies reported their greatest volume of business in history in 1942, in spite of wartime shortages and restrictions on trade, the Research Department of the Co-operative Union has just announced.

'Retail trade of the co-ops moved forward more than 68 million dollars during the year to reach a record total of \$1,277,793,924. This was an increase of 6.69 per cent over the previous year and, as the report points out,

"as against the position in 1941 this high cash figure for 1942 indicates a real increase in volume sales for between 1941 and 1942 there was practically no change in the official cost of living". The report concludes, "this surely must be acknowledged as a remarkable achievement when it is remembered that limitation of supplies reacted more severely than ever on retail trade in general".

'In every section of Great Britain membership increases were reported. The total membership now stands at 8,924,868, an increase of 151,613 new members. This is the highest increase since the war began. The increases in 1940 and 1941 were 73,661 and 56,361 respectively. Commenting on these increases the Co-operative Union reports that "while the figures in 1940 and 1941 indicated the manner in which the confidence and loyalty of members were retained in the most difficult circumstances, the 1942 figures indicate the growth of that confidence and loyalty in a relatively better trading period."

"26. In conclusion, it is submitted -- that consumer cooperatives are no longer true cooperatives effecting 'savings' for their members but have now reached the full stature of trading enterprises identical in all respects with retail business; that their so-called 'savings' are profits in the true and ordinary sense; that so long as the income of ordinary trading enterprises and corporate dividends in the hands of shareholders are taxed, the competing cooperatives and their members should be subject to the same tax treatment; and that a continuation of their present tax freedom would be grossly inequitable not only to their competitors but to all other income taxpayers and would deprive the state of tax revenue to which

it is justly entitled.

"Dated at Toronto this 3rd day of February, 1945:

The Canadian Retail Federation,

6 Adelaide St. East,
Toronto."

Document filed with brief:

Exhibit "A" - Tables illustrating result of difference in tax treatment as between consumer cooperatives and comparable businesses.

Now then, if the Commission will permit me, I would like to ask Mr. Middleton about the examples that follow.

R. J. MIDDLETON, C. A.,

having been duly sworn
testified as follows:

BY MR. CARSON:

Q. Mr. Middleton, you are I believe a chartered accountant practicing in Toronto. A. I am.

Q. Associated with what firm? A. Williamson Rutherford and Company.

Q. How long have you been a chartered accountant?
A. Seven years.

Q. I think you were responsible for the preparation of the examples that are set out in Exhibit "A" to our brief. A. Yes.

Q. Be good enough to look at example No. 1 and explain to the Commission what that discloses.
A. Example No. 1 proposes to give a comparison of relatively identical businesses as between independent retail stores and cooperative -- that is, businesses doing approximately the same volume of sales.

Q. Let me ask you this, Mr. Middleton. First, the

independent retail store at the top of that page -- operating results for 1943; are these actual figures that you have taken from the annual statement of an actual company? A. In the case of Example No. 1 the independent retail store figures were figures taken from the brief which was submitted by the Saskatchewan Provincial Board of the Retail Merchants Association of Canada. That was submitted at Regina, and to the best of our knowledge these were figures taken from an actual case.

Q. And then you show in the example that such store having sales of \$125,500 in 1943 at a cost of \$80,000 resulted in a gross profit of \$45,500, and after deducting expenses of \$38,600 there was a resulting net profit of \$6,900. A. That is right, sir.

Q. And the dominion income and excess profits taxes on that net profit were \$2,700? A. Correct.

Q. Leaving a balance available for dividends, expansion, etc. of \$4,200. A. Right, sir.

Q. And then you give the figures for a western cooperative association; from what source did you get these figures? A. That is a case taken from the published report of the Govan Co-operative Association of Govan, Saskatchewan.

Q. And you show there an amount of sales fairly comparable with the independent retail store, that is, \$104,300, at a cost of \$88,500, giving a gross profit of \$15,800, from which are deducted expenses of \$10,500, leaving what is described as a net operating surplus of \$5,300, and then there are some other additions, making a total surplus for the year available for dividends, expansion, etc., of \$7,300. And then you have in here: "Had this association

been operated as a private concern, it would have had to pay Dominion income and excess profits taxes amounting to approximately \$2,900." A. That is based on 40 per cent of the surplus available for dividends and expansion.

Q. And you have worked that out? A. Yes.

Q. And then coming to Example No. 2 of Exhibit "A", you have an independent wholesale company with retail outlets, and the operating results for 1943; what was the source of these figures? Was it from a financial report that was made available to you? A. No, those were not from a financial report; they were from the Saskatchewan Provincial Board's report.

Q. And then you worked out this statement from those reports? A. Yes.

Q. And that shows you did not have the details of sales, gross profits and expenses, but you did take the figure of net profit, \$755,000, upon which that independent company paid dominion income and excess profits taxes of \$553,000, leaving a balance available for dividends, expansion, etc., of \$202,000. A. That is right.

Q. Then you put opposite that an eastern cooperative association; operating results for last fiscal half-year period ending in August, 1944, multiplied by two -- arbitrarily multiplied by two, I suppose. A. Arbitrarily; no correction was made for any possible seasonal trends. We just multiplied by two in that case.

Q. From what source did you get these figures?

A. Those were taken from the published report for the 76th half-year ending August 2, 1944, of the British Canadian Co-operative Society Limited.

Q. This is from the printed report for the 76th half-year ending August 2, 1944, and according to that report

they have a central store at Sydney Mines and eight other stores. This will be filed as Exhibit 1 to the brief. According to that, using 2 as a multiple, you have sales of \$1,790,000; cost of sales, \$1,376,000, and a gross profit of \$414,000, with expenses of \$294,000, and that shows a net profit of \$120,000; other income \$2,000, making a surplus available for dividends, expansion, etc., of \$122,000. "Assuming that this cooperative association had been a privately operated concern and assuming that as such it might have had a standard profit of \$100,000, it would have had to pay Dominion income and excess profits taxes of approximately \$52,000. It would have been entitled to a post-war tax refund of approximately \$1,067." And that is worked out by you, is it? A. Yes.

Q. Is a matter of computation? A. Yes.

Q. Did you find anything in the printed document that has been filed as an Exhibit to indicate that that particular cooperative company, the British Canadian, paid any taxes on its income or reserves or surplus? A. There is a reference to taxes of some \$12,000, but based on that amount I think it is safe to assume they would be property taxes, real estate taxes.

Q. I am speaking now about federal taxes. A. No, no indication of any such taxes having been paid.

Q. Then take Example No. 3 on the next page, which I think speaks for itself. You have taken three independent retail organizations and shown their operating results -- Company A, Company B and Company C. Are those actual figures, or are they taken from reports ---? A. Those figures are taken again from the Saskatchewan Provincial Board's brief, taken to the nearest correct hundred dollars.

Q. And taking Company A, with annual earnings of \$56,400; estimated dominion income and excess profits taxes, less refundable portion, \$44,500; balance available for dividends, expansion, etc., \$11,900? A. That is true.

Q. You have worked that out, I suppose. A. No; those are the figures as given; we had no way of proving them.

Q. Then I do not think I need read all of this; the Commission can see what the results are as to Company B and Company C. Then the note says, "Had the above companies operated as cooperative organizations, they would not have been subject to Dominion income and excess profits taxes." Then take Example No. 4, somewhat larger in amount, an independent retail chain drug company, operating results for 1943; and these figures I believe are taken from the actual report of such a company operating in Canada? A. Those figures were taken --

Q. Mr. Parker tells me it is not necessary to mention names. A. They were taken from an independent company; the figures were provided by the Corporate Security Service, then were examined by me and extracted therefrom.

Q. And that company with sales of \$5,290,000 in 1943 had net earnings of \$589,000; their provision for dominion income and excess profits taxes less refundable portion was \$394,000, leaving a balance available for dividends, expansion, etc., of \$195,000. Then you compare with that a western cooperative wholesale society, and its operating result for the same year, 1943. May I ask you where these figures come from? A. These figures were all taken from the Saskatchewan Provincial Board's report and related to the Saskatchewan Co-operative Wholesale Society Limited of

Saskatoon.

Q. And they show sales -- A. We had no detail about the make-up of the \$96,468 there.

Q. That is why you take the sales of \$3,751,000?
A. Yes.

Q. And show net earnings as \$96,468; nothing paid in taxes, leaving that balance available for dividends, expansion, etc.

BY MR. PARKER:

Q. I take it, Mr. Middleton, that these examples are for the purpose of showing, as you say, that by allowing cooperatives to carry on as they do, the State loses a certain amount of taxes which it would otherwise get?
A. Yes.

Q. If the same business was carried on by a private corporation? A. Exactly.

Q. Of course we know that private corporations pay taxes as the law provides; we know that. In showing these figures did you take into consideration the fact that what you have called profits for cooperatives, to the extent that they are distributed to members of cooperatives, increase the amount of personal income tax these recipients would pay? A. That would be true.

Q. You didn't take that into consideration in setting up these figures? A. These figures were taken in most cases in the case of the cooperatives -- for instance in Example No. 1, Govan Co-operative Association Limited, directly from its financial report, and the surplus available for dividends and expansion, \$7,300 to the best of our knowledge was the surplus before any patronage dividends were paid.

Q. How good is your best knowledge? A. The actual published statement itself.

Q. What does it say? Is it before or after?
A. They come to trading account, and it shows inventory of merchandise supplies --

Q. We don't want to read all that; does it show whether these figures are before or after payment of patronage dividend? A. It would show that these figures are before patronage dividend, yes.

Q. All right; one-half or three-quarters or whatever proportion of that is paid out in patronage dividend, and to that extent the recipients of these patronage dividends would pay increased personal income tax? A. That is correct.

Q. Assuming they are taxed. A. Assuming they are taxed on patronage dividends.

Q. You have no reason to suppose the recipients of income do not pay tax on it? A. No, I have no reason to doubt that.

Q. And you have no information as to how much should be deducted from your estimated loss of state income by crediting against that whatever increased amount might be paid by the recipients of patronage dividends?

A. No; that is quite right.

Q. And that would be substantial at any rate?

A. Of course we are taking the figures --

Q. My question is would it be substantial. You know enough about it for that. A. I just didn't quite understand that question there. You mean the patronage dividend might be substantial?

Q. I say if the profits to the members of cooperatives are not taxed and they are paid out in patronage dividends,

the recipients would have greater income and would undoubtedly pay more income tax? A. Quite true.

Q. But you have no figures as to how much that would be? A. No.

Q. It would depend on the number of taxpayers? A. Yes.

Q. And the amount of the man's income apart from that patronage dividend, and a number of other things? A. Yes.

Q. But the point is that your illustrations work out in a manner which would leave the inference that the State was being deprived of a greater amount of income than probably it really shows? A. I wouldn't put it that way.

MR. CARSON: It is not intended to leave any such impression. The statements speak for themselves.

BY MR. PARKER:

Q. Did you prepare this brief, or help to prepare it? A. No, I didn't. I prepared only the figures in the examples.

MR. CARSON: I am not qualifying Mr. Middleton to answer questions on the brief itself. He has only appeared here to substantiate the figures and tell their source.

MR. PARKER: Is there anybody who can do that?

BY MR. ELLIOTT:

Q. Have you examined the statements of quite a number of these men in the retail stores? A. Other than as indicated in here -- yes; I have quite a number of clients of that type.

Q. Do you find that among stores doing about the same volume of business there is some variation in the

surplus available for dividends and expansion? A. Yes, there is variation.

BY MR. FRANCIS:

Q. May I direct one or two questions to the witness, Mr. Chairman. Referring to Example No. 1, Exhibit A, Mr. Middleton, you will note that in Example No. 1, independent retail store, the mark-up, that is, the difference between \$80,000 and \$125,000, is in round figures 56 per cent? A. The gross profit?

Q. Yes. A. We usually work out a mark-up based on sales volume, but you are taking it on cost of sales.

Q. In any case the gross profit is \$45,000? A. Yes.

Q. If you look at the other example, the western cooperative, you will see that the mark-up is 16.9 per cent -- say 17 per cent? A. That would be true, yes.

Q. So that where the private organization required to make a profit of 56 per cent, the cooperative, endeavouring to do this at cost, has a mark-up of 16 to 17 per cent; that is correct? A. These figures show these results.

Q. You have made a study of the cooperatives; are you aware that the principle on which cooperatives function is to operate at cost? A. Presumably.

Q. And you find that the cooperative is fairly successful in achieving that purpose? A. Right.

Q. And there are others you have examined that have been fairly successful in operating at cost? A. Yes.

Q. You are also familiar with private business; is it usual for private business to have a mark-up of 56 per cent? A. In some cases it might be higher, sir; in other cases much lower.

Q. With regard to Example No. 1, will you tell the Commission what the net profit of that organization was in 1942? A. I haven't those figures available, no.

Q. Can you tell the Commission what the profits were in 1941? A. No, those figures are not available.

Q. Can you tell the Commission whether or not in spite of taxes the net income increased during the years 1941, 1942 and 1943? A. No, I do not think I can tell that -- no, I can't give you that information.

Q. Very well. In what commodities does the retail store referred to in Example No. 1 deal? A. I haven't that information either, I am afraid, sir. I have only the information as it is shown in that example of the Saskatchewan Provincial Board. Apparently no detail was given there, to the best of my knowledge.

Q. In what commodities does the cooperative association deal? A. That would be found I believe in their financial report. I haven't that before me now; we submitted that to the Commission.

Q. You haven't that information? A. No, other than what is in the report.

MR. CARSON: The report is here. That is the Govan.

THE WITNESS: I beg your pardon?

BY MR. FRANCIS:

Q. I am speaking of the Govan. A. It would appear that Govan deals in quite a number of commodities, principally groceries, and they have also reference to oil -- oil and grease, gas and tractor fuels --

Q. Let us take oil. Does the Govan Co-operative deal in twine? The point I want to make is this; it is a farm supply and it would be an expense item in the individual

income tax return. A. I assume it does deal in twine.

Q. Will you please tell the Commission? We would like to know the facts. A. I have only the facts as in this report; I can submit this report to the Commission. The sales are gas and tractor fuels, oil and grease, coal and wood, groceries, hardware, which I presume would include twine; then they have apparently a trucking service. Those are all the activities referred to in their financial report.

Q. That is the information I wanted. Now I would like to draw your attention to Example No. 4. I notice you have taken an independent retail general drug company? A. Yes.

Q. Will you please explain why you have compared an independent retail general drug company with a western co-operative wholesale society? A. The comparison wasn't so much in like as it was in size of business. It is in relation to volume of sales.

Q. In what type of business does the Western Co-operative Wholesale Society deal? What are the commodities handled by it? A. That would be difficult for me to say -- that is the Saskatchewan Co-operative Wholesale Society Limited. It doesn't state in this report, that is, in the Saskatchewan Provincial Board's report it doesn't state --

Q. That is all information I think would be interesting to you. What percentage of the business of \$3,751,000 is farm supplies on which the individual would pay income taxes? A. I haven't that information available.

Q. Now, do you think it is a fair comparison to take a retail general drug company and compare it with a co-operative wholesale supplying goods to farmers? A. We

are not trying to draw any comparisons as between net earnings or the operating results before taxes. It is understood that in many cases cooperatives would have a much lower mark-up; that is entirely their business. We are not criticizing the operations of the cooperatives in themselves. We are not criticizing those; it is only the results of the operations in so far as they would be affected by income and excess profits taxes.

Q. Will you please tell the Commission the net profit made by this independent retail general drug company in 1942. A. I have that information at the office; I haven't that information here. In 1942 I believe it was somewhat less. I think it would be over \$400,000 -- that is purely an expression of opinion at present.

Q. Then will you please withdraw it until you have the facts. A. Yes.

Q. With regard to 1941, do you know what the net profit of that retail drug company was? A. No, I cannot tell that offhand. I can get that information very readily, though.

Q. But the fact is that in spite of all the taxes that were paid, the independent drug company did in 1942 have a profit for its shareholders of \$195,000; is that correct? A. That is true.

BY THE CHAIRMAN:

Q. There is no intention of trying to show the competitive picture? A. No, sir. We are aware that there is quite conceivably a much smaller mark-up and possibly smaller profits in the case of the cooperatives. That is possible -- not necessarily general, but it is possible.

BY MR. FRANCIS:

Q. In regard to the British Canadian Co-operative

Society Limited, some reference was made to the distribution of patronage dividends. To whom do those patronage dividends go? A. Is that statement in the hands of the Registrar? (Examining statement). In the cost statement shown here, and it is for only the six months period, there is shown a net gain, or a disbursable balance, rather, of \$36,597, and it states here: "Balance for the half-year as shown by the gain and loss statement amounts to \$61,974, which after making due allowance for the interim surplus for the May period" -- that is they had disposed of some \$25,000 before that -- "leaves a disbursable balance of \$36,597.30, which we propose to distribute as follows: returns on members purchases at 6 per cent, \$27,401; returns on non-members trade at 3 per cent, \$343; depreciations on properties, fixtures, etc., \$8,851," giving a total of \$36,597.

Q. This distribution would in some cases increase the income of members? A. Yes.

Q. Have you any information as to whether the members would be taxable personally for income tax if they did not receive these surpluses? A. No.

Q. You have no information on that? A. No.

MR. CARSON: I do not know what the facts are, but Mr. Francis seems to cross-examine on the assumption that the dividends are exempt in the hands of the recipient. I do not know if that is the case.

THE WITNESS: We understand them to be taxable in the hands of the recipient. We understand them to be so.

MR. CARSON: There seems to be a great difference of opinion about that.

MR. ELLIOTT: In cases where they enter into the expenses of someone doing business they obviously increase that person's income.

GEORGE HOUGHAM.

Secretary,
The Canadian Retail Federation,
having been duly sworn
testified as follows:

BY MR. CARSON:

Q. Mr. Hougham, you are the Secretary of the Canadian Retail Federation? A. Yes sir.

Q. And have participated in the preparation of the brief I presented to the Commission? A. Yes sir.

Q. How long have you occupied the position of Secretary, Mr. Hougham? A. Of the Canadian Retail Federation since November 1941, and of the Retail Merchants Association of Canada since 1930.

Q. The Retail Merchants Association of Canada being the organization that was incorporated in 1910? A. That is right.

MR. CARSON: Then if Mr. Parker would like to ask us about our brief, Mr. Hougham will try to answer and I will try to answer if I can.

BY MR. PARKER:

Q. There are a few questions I should like to ask. You prepared this brief, did you? A. In collaboration with the counsel and with the committee, sir.

Q. At any rate you speak on behalf of your Association, express the Association's views? A. That is right, sir.

Q. There are only very few questions I want to ask you. I would ask your attention to the bottom of page 3, second last paragraph: "Cooperative corporations, not their members, own the assets and conduct the business -- buying, selling, advertising, and managing -- by methods similar to those established in the retail trade." That is, you mean by private enterprise? A. Yes.

Q. Now, you say "similar"; you recognize there are a great many fundamental differences, don't you, in their methods? A. There may be legally, but in practice our understanding is the procedure is the same. I am not familiar with the various legal interpretations or documents in which they might be incorporated --

Q. Let us leave out the legal end of it. A. So far as trading operations are concerned it is the same.

Q. Don't you know that they actually do business under a different method? A. We are not aware of any difference, Mr. Parker.

MR. CARSON: Perhaps I can help my learned friend; I am responsible for some of this language. We say that cooperative corporations, not their members, own the assets and conduct the business, and the meaning is that where you have a corporation there is a separate legal entity that owns the assets and conducts the business; then we go on to say --

THE CHAIRMAN: There may be a different view on that, Mr. Carson.

MR. PARKER: We know what you say; we are going to see whether it stands investigation or not.

THE CHAIRMAN: I am only referring to the contentions that have been made throughout the country on that point. They are not exactly in agreement with that sentence.

MR. CARSON: I am only relying on the decisions of the courts as high as the House of Lords when I put the proposition that a corporation is something entirely separate and distinct from its shareholders in law. The proposition, if I may explain it, is that the cooperative corporations as separate legal entities, not their members, own the assets and the corporation conducts the business, not the

shareholders, buying, selling, advertising and managing.

BY THE CHAIRMAN:

Q. Would you say, then, it is purely an agency transaction? A. An agency transaction in what sense, Mr. Chairman?

Q. By a corporation handling the goods of its members, say on consignment. A. That would depend on what the relationship was.

Q. It would depend on the agreement. All Mr. Parker is asking you is if that sentence is not rather broad.

MR. CARSON: It may be. One may be at some slight disadvantage when he comes in here fresh this morning and has to meet Mr. Parker's long experience across the country. I would not want to press the thing. That is the sense in which we meant it; if it is too broad, the Commission knows what the facts are.

BY MR. PARKER:

Q. I will just read it again. You say: "Cooperative corporations, not their members, own the assets and conduct the business" -- well, whether we quarrel with that or not we will let it go for the moment -- "conduct the business"-- you have a dash there; I take it you mean the business being buying, selling, advertising, managing? That is the kind of business? That is what they mean? A. That is our understanding.

Q. Now, "by methods similar to those established in the retail trade." I am suggesting to you that the business carried on by cooperatives is done by methods that are fundamentally different from the methods under which private corporations carry on business. Do you agree with that? A. Subject to having some facts presented which would support that view.

Q. But you know of none at the moment? A. I know of none.

Q. Are you referring to consumer cooperatives when you make that statement, or producer cooperatives?

A. Purely consumer cooperatives.

Q. Would you make the same statement with reference to producer cooperatives? A. I have no knowledge of that. I wouldn't care to express an opinion.

Q. Let me suggest to you, then -- take a producer cooperative, say a wheat grower or a milk producer. He hands his wheat or his milk over to a cooperative society, as the Chairman suggested a moment ago, on a consignment basis to dispose of at the best price obtainable, and after paying the necessary expenses they pay him the balance. Is that the type of business you have in mind that is being carried on by an ordinary private company? A. No.

MR. CARSON: He said he was not referring to producer cooperatives.

BY MR. PARKER:

Q. Now, in the next paragraph you make the statement: "The only difference between consumer cooperatives and other retail enterprises lies in the description given to the moneys available for distribution." Again I suggest to you that possibly you might modify that a little, that there are other differences than the small one you mention.

A. None that I have any knowledge of.

Q. You have made a considerable study of cooperatives in the preparation of this brief? A. Yes.

Q. You found out how they do business? A. Yes.

Q. And you could not detect that? A. Pardon me; I don't think that is quite a fair statement. I didn't catch that --

Q. You examined into their methods of doing business and you failed to detect any difference? A. Failed to detect -- you made a final comment there that escaped me.

Q. You failed to detect any difference? A. Oh, I am sorry; I made a wrong inference. That is all right.

BY THE CHAIRMAN:

Q. Does "one member one vote" not make a very important distinction? A. In any private company, sir, one member would have one vote.

Q. That would depend on the number of shares held, wouldn't it? A. Yes, that is right.

Q. That is not so with cooperatives? Are there any cooperatives that answer to that description?

BY MR. CARSON:

Q. I think what the chairman means is that in a co-operative, as I understand it, no matter how many shares you have, you have one vote; one individual has one vote.

A. That may be so.

MR. CARSON: And in an ordinary corporation you have one vote for each share.

BY MR. PARKER:

Q. Don't you know that that is so? A. That is true, yes; I know that to be true.

Q. What the chairman is suggesting, as I take it, is this: isn't that a great difference in carrying on the business of the company? A. It would be a difference in its set-up but not in its trading operations. It is the trading operations that we are talking about, which we say are identical with private trading operations.

THE CHAIRMAN: It is a difference in the matter of control.

MR. PARKER: It is this gentleman's opinion, if that

is what he thinks about it.

MR. CARSON: I am partly to blame for this.

MR. PARKER: There is no question of anybody being to blame for anything.

MR. CARSON: And I hope you don't mind if I try to help out.

MR. PARKER: Not a bit.

BY MR. PARKER:

Q. Just one other question. At page 4, bottom of the page, you make this statement: that "the legislation should be amended so as to make it clear beyond question that the so-called "savings" are in reality taxable income." Could you be a little more explicit in that? Just what amendment should be made? Can you tell us? Have you thought that through to the point of being able to make a suggestion there? A. I think our point, Mr. Parker, is that the word "savings" is in our opinion a misnomer. It should be called profits, and in our opinion profits are taxable.

Q. Do you include in savings what the cooperatives call their reserves? A. Yes.

Q. Their patronage dividends? A. Yes.

Q. And the amounts that are allocated for the benefit of members to hold back by way of working capital?

A. Whatever their earnings would be.

Q. You say that all these funds, whatever they may be, should be treated as profits and a suitable section put in the Income Tax Act, if need be, defining income in such a way as to include these? A. Yes.

Q. That is your suggestion? A. Yes.

Q. Well, that is clear. A. I wonder, Mr. Chairman, if I may have the privilege of trying to clarify something which is still not clear in my mind as a result of exchanges

before I came to this stand? I did not make the statement, but I was asking for clarification.

MR. PARKER: Quite.

THE WITNESS: The question arises by way of question and answer, as to whether or not a patronage dividend in the possession of a shareholder or member of a cooperative is taxable. I think the point was made that the increase in the hands of the shareholder of such dividends is personal taxable income. Now I am under the impression, subject to correction, that the portion of the dividend which would accrue from trading operations in consumable goods would not be taxable. Am I correct?

MR. PARKER: I do not know whether anyone is quite prepared to give a categorical answer to that. There seems to be a difference of opinion.

THE WITNESS: My point is that the impression has been created that all the patronage dividend that he might get from such increase is personal taxable income and the State is enriched to that extent.

MR. PARKER: Not necessarily taxable income, but increased income.

THE WITNESS: It might build the income up to the taxable bracket. My impression is that that portion of the dividend which accrues from the buying and selling of consumable goods is not part of his income and could not be so built up. I think the point should be clarified.

MR. VAUGHAN: When a farmer is a member of a consumer cooperative, in the ordinary course of his operations he buys certain goods that he and his family consume -- food, clothing, and so on; he buys at less cost and therefore reduces his cost of living without in any way increasing his

taxation. But when he buys goods that he uses on his farm, such as gasoline, oil, etc., the dividend reduces his cost of operation and increases his farm income and therefore his profit, and his taxation is or may be increased.

MR. PARKER: I do not think one can lay down a definite rule.

BY MR. PARKER:

Q. Then on page 9, top of the page, I need not read the paragraph but I take it the people for whom you speak have no objection to what you might call a true cooperative --

A. No sir.

Q. -- being exempt from taxation; if there is such a thing as a true cooperative it should not be taxed. And your argument is that a great many so-called cooperatives, as you see it, are not true cooperatives? A. Our point, I think, as the brief tries to set out, is that they have expanded from their original limited sense and have become trading enterprises.

Q. That is what I wanted to make sure of; that is the gist of your argument? A. Yes.

Q. Now, could you help the Commission by drawing a line between what you call a true cooperative, one that should get the benefit of tax exemption, and one that has departed to such a degree that it is made taxable?

A. I think, Mr. Parker, that has been adequately set out in the brief itself.

Q. All right; if you do not wish to state it, I can perhaps state it in a word or two.

MR. CARSON: We took a lot of pains with that. I do not think it can be stated in a word or two. The line is drawn on page 9 of the brief.

BY MR. PARKER:

Q. All right; that is your answer? A. Yes sir.

Q. You see the brief; I will accept it. Now, page 13, bottom of the page: "With the continued expansion of the movement as a whole, the tax loss to the state in respect of all cooperatives must be steadily increasing and must now be very large." In the paragraph which preceded that, in which you draw that inference, what is the source of those figures? A. I am sorry, I am not following you. It is not page 13, is it?

Q. The last paragraph at the bottom of page 12. I would like to check the source of those figures. A. The source of the figures that precede it, do you mean?

Q. No; I mean that \$242,000. Where did you get those figures? A. I cannot recall at the moment where they came from, but they were I think from a report of the co-operative union itself. I am not quite sure of it.

MR. CARSON: I am told that comes out of the same Dominion statistical report that has been referred to in some earlier part of the brief -- I think it is at the bottom of page 11 that the reference is made to the figures compiled by the Dominion Bureau of Statistics.

BY MR. PARKER:

Q. These figures came from that same source? A. Yes.

Q. On page 13, the same question in a different form: "The application of equitable principles of taxation would not, it is submitted, jeopardize the legitimate expansion or continued prosperity of the consumer cooperative movement." Again we have the general statement: what are equitable principles? The taxation of all their reserves, dividends, allocations? A. At the risk of emphasis, I think it would be about the same, that with operations

that are identical, as we claim they are, the tax method would likewise be applicable.

Q. That is as concrete as you can put it? A. That is as definite as I can make it, sir, yes.

BY MR. ARNASON:

Q. With reference to paragraph 15 on page 10, I am a little puzzled as to the meaning of the first two sentences. You say: "The fund available to cooperatives for the payment of patronage dividends consists of profits arising from trade with the public and income from investments." Then you go on to say that the profits are increased by sales to the public at large. With regard to the first sentence, when I read that I wondered whether you had reference to a cooperative that does trade with non-members, or whether you had in mind trade with members as well as non-members, because of your use of the word "public." A. I think we had in mind both members and non-members, Mr. Commissioner.

Q. Oh, I see. A. Its total transactions, which might be with members exclusively, or members and non-members.

Q. Your use of the word "public", then was with reference to members and non-members? A. That is right.

Q. I wondered whether you had in mind a distinction between the operations of a cooperative that refunds a portion of its surplus in the form of patronage dividends to the members with whom it does business, and confines its business to members, and the operations of a cooperative that does a considerable amount of business with non-members and does not pay any patronage dividend to those non-members. Do you differentiate between the two? A. No; I think we have to stay within the narrow limits we have imposed on ourselves by our statement, that regardless of the volume

of business with members or non-members, whatever the earned surplus is, if that surplus is earned by the same methods as our private traders, then we would feel they were subject to tax. What portion of that revenue accrued from members or non-members would appear to us to be immaterial.

Q. Just one more question. You refer to what might be termed a pure cooperative. Do you know of any example of such an organization in actual operation, or could you describe one? A. The only one I have heard of is the one I understand -- and that is a press report -- that came before the Commission at your earlier sessions in Vancouver, when I understand some people from Island Bay in the Pacific --

THE CHAIRMAN: Massett Island.

THE WITNESS: From my reading of the press report that comes nearer to our definition of a pure cooperative than anything we know anything about.

BY MR. ARNASON:

Q. You would think, then, that amongst the number of what might be termed organized cooperatives, there is, to use a colloquial expression, such an animal as a pure cooperative? A. There could be, but we would like to see it paraded.

BY THE CHAIRMAN:

Q. Is it your argument, based on the first sentence on page 15, that a consumer cooperative when it expands to a certain degree can no longer remain a cooperative, that the mere fact of expansion destroys the cooperative principle? Is that the idea? A. Yes, I think it is, sir.

Q. Reading the first sentence, "In conclusion it is submitted that consumer cooperatives are no longer true cooperatives effecting 'savings' for their members but have now reached the full stature of trading enterprises identical in all respects with retail business."

A. For the reasons set out in the description of what constitutes in our judgment a true cooperative as an original concept.

Q. When a cooperative enters the big business field, it is no longer a cooperative? A. I do not think, sir, it is conditioned by its big business. It is conditioned by the nature of its transactions, whether they are large or small.

MR. CARSON: Perhaps I may say this, Mr. Chairman, and Mr. Hougham may listen to what I say so that I do not get into trouble with him afterwards. If you take our conception of the true cooperative as the ten or fifteen or twenty people perhaps in a village who buy a car of coal for distribution among themselves, it still remains a true cooperative if the same thing is done by a hundred people on the same cooperative principle. It would still be a true cooperative if the same thing were done by a thousand people on the same principle, with a return to those individuals of the proportion of their contribution that exceeded the actual expenditure on the coal.

THE CHAIRMAN: All I was asking was whether the transition to big business principles brought about a change.

MR. CARSON: Yes, that is our argument. They have changed. They have changed from the true principle as we have tried to describe it.

BY MR. FRANCIS:

Q. May I call your attention to page 8, paragraph 11,

in the middle of the paragraph, commencing "These reserves" -- that is, the reserves of cooperatives -- "have in large part been expended in developing and extending the operations of the cooperative organizations and in the purchase of competing organizations and in the formation and financing of wholesale enterprises." Now, first of all, I understand that you refer in particular to consumer cooperatives? A. Yes, sir; that is right.

Q. And you are no doubt aware that during the year 1944, according to the evidence before the Commission, fifty-nine business which had previously been under private control were taken over or sold to cooperatives?

A. In what province?

Q. Saskatchewan. A. I thought there were 171.

Q. A lot of people thought that.

THE CHAIRMAN: They have been quarrelling with that figure ever since.

THE WITNESS: All right; we will take your figure.

MR. FRANCIS: You are just one more who has been misled by that.

MR. CARSON: Until now, we were members of the 171 club.

BY MR. FRANCIS:

Q. Now, are you aware of the percentage of the purchase price of these businesses that came from reserves?

A. No sir, I am not.

Q. There is evidence before this Commission that of \$23,000 paid for these businesses or group of businesses, only a few thousand dollars came from reserves? Can you deny that? A. Oh, I couldn't.

THE CHAIRMAN: That is rather irregular, Mr. Francis. The witness has said he does not know.

THE WITNESS: I don't know. I have no information on the subject at all.

BY MR. MILLIKEN:

Q. If I heard the brief correctly -- I must confess that looking over it now I cannot locate it -- I understood Mr. Carson to say somewhere that no ordinary corporation is allowed to deduct patronage dividends. Is that in the brief? I do not have the brief before me.

A. That they were not allowed to deduct their ordinary dividends before making up their statement.

MR. MILLIKEN: If that is correct, Mr. Carson, I wish to ask, have you any personal knowledge of any ordinary joint stock company endeavouring to deduct patronage dividends?

MR. CARSON: The ordinary joint stock company of the kind I know does not have what you call patronage dividends.

MR. MILLIKEN: This question has come up before. There were one or two witnesses further west who made the same statement; and there actually were cases of four or five companies making application to have a patronage dividend allowed as a deduction. Now, later on I hope to be able to show you why --

THE CHAIRMAN: I do not think this brief has reference to that. This brief refers to ordinary dividends, as far as I recall.

MR. CARSON: This may be the reference, page 8: "This Federation has no knowledge as to whether patronage dividends are taxed in the hands of the recipient."

MR. MILLIKEN: No, Mr. Carson; it must have been in another brief.

MR. CARSON: "If not, it is respectfully submitted that so long as dividends paid by an ordinary corporation

are taxable in the hands of shareholders; patronage dividends should be similarly taxed."

MR. MILLIKEN: I think it was the Manufacturers' Association brief; I am sorry.

MR. PARKER: I think we had better revert now to our order and take up No. 3, United Farmers Co-operative Company Limited, general brief.

ALBERT C. SAVAGE,

Secretary-Treasurer,
Ontario Co-operative Union,
examined:

MR. FRANCIS: Mr. Chairman, before proceeding with the brief on cooperative law and development in the province of Ontario, there are two explanations I would like to make.

First of all there are certain minor corrections that I would like to make before Mr. Savage reads the brief; and secondly I would like to point out that we propose to omit the reading of several pages of this brief because there is duplication of material and I think we can save a great deal of the time of the Commission. As we come to them we suggest that the witness indicate to the Commission what the omissions are. If there are any counsel who would like copies of the brief we have them available.

Now, with regard to the corrections, at page 3, the last two lines of the first paragraph: "Where the surplus does not exceed 1 per cent of the year's gross business, distribution of the surplus may be deferred," -- the amendment to the Act makes that out of date.

THE CHAIRMAN: The whole sentence is deleted?

MR. FRANCIS: Yes, that comes out. Then on page 6 there is a slight amendment in clause (f), Mutual Insurance Societies; that should be "Mutual Insurance Companies"; and in line 2 the word "hail" should be deleted. Then the last two lines should be deleted, -- "although the classification is broad enough to include any insurance company handling any kind of insurance on a mutual basis."

Then on page 10, the last two lines under Farmers Mutual Fire Insurance Companies, instead of the year 1942 in the second last line please insert 1943, and in the last line instead of the figures that appear there substitute 1,621,344,236.

On page 11, the last word in the first paragraph, "charters," should come out, and the following words should be added, "or credit union legislation." On page 20 the words in the third last line from "as the" to the word "believe" should be taken out, so that the paragraph will read, "It is not true that all cooperatives are exempt from taxation, or even that any cooperative is exempt from all taxation. In our opinion " and so on.

On page 22 there are two or three amendments. In the first line, "Cooperatives pay all these taxes," the words "and many others" should come out. Then in the third line, before the word "cooperatives" the word "Ontario" should be inserted -- "most Ontario cooperatives pay." I might point out that in this province the situation is very different. Some briefs this morning indicate that cooperatives do not pay any income tax; a large number here do pay very heavy income tax, and we will bring that up a little later. Then in the third last line of the first paragraph the word "provincial" should be deleted -- "In some cases, because of law or public necessity." It is really

dominion law we had reference to there, Wartime Prices and Trade Board. And one more: in the third last line of the second paragraph where it reads "but are accounted for" insert after the word "but" "if part of the patron's income."

Now, just by way of qualifying Mr. Savage, I will ask him a question or two.

BY MR. FRANCIS:

Q. Mr. Savage, you are the Secretary-Treasurer of the Co-operative Union of Ontario? A. Yes, sir.

Q. I understand that before taking this position you held for twenty-five years an executive position with the Dominion Government? A. That is right.

Q. You were Assistant Superintendent of Customs and Excise in the City of Toronto? A. Yes.

Q. I understand that for some years while in that position you also took a great interest in the cooperative movement? A. That is right.

Q. Now this brief you are about to present, how was that prepared? A. Well, it originated with a conference of cooperatives in this province that was held in the City of Toronto on the 3rd and 4th of January last. As a result of that conference there was a committee set up to draft the brief. The brief was then referred back to the executive committee of the Ontario Co-operative Union and submitted to the directors by mail and approved for submission to this Commission.

Q. How many were at that conference, Mr. Savage? A. About 125. There would have been more but we were in the midst of a storm here in the province of Ontario that kept a lot of our rural members away.

Q. Are you authorized to present the brief?

A. Yes.

Q. Will you proceed with the reading of it, and just pause at the places we have agreed on where we have application for leave to omit the reading.

THE WITNESS: Mr. Chairman and gentlemen of the Commission, this is the brief submitted by the Ontario Co-operative Union:

"This brief is being presented by representatives of the Ontario Co-operative Union which is an organization composed of most of the organized cooperatives within the province. The Ontario Co-operative Union is a section of the Co-operative Union of Canada which has already presented a brief to the Commission. As this latter brief dealt with the situation only in a very general way and left it to the provincial sections to deal with the specific situation in each province, this brief will only deal with the situation in the province of Ontario. Cooperatives in the province of Ontario are not asking for any special concessions or favours in the way of taxes from the government but only equitable treatment, having in mind the special characteristics of their methods of doing business. The present tax situation is, because of the uncertainty in its application, as objectionable to cooperatives as to others."

MR. FRANCIS: Part II might be omitted and we will go on with Part III, Incorporation of Cooperatives in Ontario.

THE WITNESS: It is not the intention to strike it out; I believe the intention is to ask permission not to read it, to save the time of the Commission. Continuing:

III. Incorporation of Cooperatives in Ontario:

"There is no general cooperative Act in Ontario similar to that which exists in several of the other provinces. Credit Unions are incorporated under the Credit Unions Act, and most other cooperatives are incorporated under Part XII of the Ontario Companies Act. A few are incorporated under special acts and at least one is incorporated under the Dominion Companies Act although it is doing business on a cooperative basis. The latter Act does not contain any provisions for the incorporation of cooperatives.

"Part XII of the Ontario Companies Act is made applicable to all applications for the incorporation of corporations to be operated on a cooperative basis (Sec.140). It provides for incorporation with share capital or without share capital. If without share capital the capital may be in the form of loan units or promissory notes, called capital notes (sec.147), or in the form of loans made by the members to the corporation called loan units (sec.147A). If it is organized on a share capital basis the rate of interest on capital may not exceed 8 per cent per annum, while if the organization is on a loan unit basis the rate of interest may not exceed 6 per cent per annum. There is an obligation on the directors to distribute the surplus funds arising from the business of the cooperative in payment of interest on capital, not exceeding the above rates, and to divide, as the by-laws may provide, the remaining net surplus among the members or shareholders in proportion to the business done by each with or through the corporation, either on the basis of total volume or on the basis of the volume or volumes in respect of the different kinds or classes of commodities purchased or sold.

There is provision that upon crediting such distributive amounts to the members or shareholders, payment thereof may be deferred by the directors and the amount retained or used for the purposes of the cooperative.

"Before distribution of the surplus, a cooperative may, subject to the by-laws, set aside not more than 20 per cent of its net surplus in any one year as a reserve fund, and not more than 5 per cent of its net surplus in any one year as an educational or community fund. It may also provide for a trade discount to non-members or non-shareholders at the same or a lesser rate than that paid to members.

"IV. Statutory Definitions of a Cooperative:

"There is no definition of a cooperative, either in the Income War Tax Act or in any other Dominion legislation. In Part XII of the Ontario Companies Act, under which most cooperatives in the province are incorporated, a cooperative is defined in Section 141, as follows:-

'141. A corporation shall be deemed to be operated on a cooperative basis if provision is made in its letters patent or supplementary letters patent or by-laws,-

(a) that no member or shareholder shall have more than one vote; and

(b) that no member or shareholder shall vote by proxy; and

(c) that the surplus funds arising from the business of the corporation shall be distributed annually as follows,-

(i) payment of interest on the paid-up capital at a rate not exceeding eight per centum per annum;

(ii) division, as the by-laws may provide, of the remaining net surplus funds among the members or

shareholders in proportion to the business done by each member or shareholder with or through the corporation, either on the basis of the total volume thereof or on the basis of the volume or volumes in respect to the different kinds or classes of commodities purchased from or sold to the corporation by each member or shareholder; provided that, on crediting such distributive amounts or any portion thereof to each member or shareholder, the payment of the amounts so credited may be deferred by the directors and the monies retained or used for the purpose of the corporation.'

"This definition is qualified by section 143 which permits a cooperative, before making a distribution of its surplus, to set aside not more than 20 per cent of its net surplus in any one year as a reserve fund, an amount not exceeding 5 per cent of its net surplus as an educational or community fund, and to provide for a trade refund to non-members or non-shareholders. The latter section is as follows:

'143. Before a distribution of the remaining net surplus funds is made, a corporation may, subject to the provision of the by-laws, set aside, -

(a) an amount not to exceed twenty per centum of the net surplus funds in any one year, as a reserve fund;

(b) an amount not to exceed five per centum of the net surplus funds in any one year as an educational or community fund;

(c) a trade refund to non-members or non-shareholders at such proportionate rate of that paid to members or shareholders as may be determined by by-law.

R.S.O. 1937, c. 251, s. 143.'

"This definition, though helpful, is not entirely satisfactory as it is not comprehensive enough. It does not include certain well-known types of cooperatives, such as credit unions or farm mutual insurance companies, and instead of actually defining a cooperative it only provides that 'a corporation shall be deemed to be operated on a cooperative basis if.....' certain conditions are complied with. Also, it ignores certain fundamental principles of the cooperative philosophy such as political, religious and racial neutrality. And, of course, the chief objection to it from a taxation standpoint is that the section has no counterpart in Dominion legislation nor is it referred to in any Dominion statute.

"Excellent definitions of a cooperative are contained in the legislation of other North American countries, and before leaving the subject we might refer to two examples.

"The recently enacted Labour Code of Costa Rica defined a cooperative as follows:-

'A cooperative society is a society of unlimited duration and having a variable and unlimited membership and capital, in which the members organize their individual activities and interests through common action for a specific purpose, with a view to improving their social and economic position, without thought of profit and on the basis of distributing any eventual surpluses proportionately to the use made by each member of the common enterprise.'

"It is significant that in order to avoid any controversy over the nature of the surpluses resulting in a cooperative, the Code provided, by article 345, that 'for all legal purposes a cooperative shall be deemed not to make

profits. Any surplus appearing on the balance sheet is nothing else than savings resulting from the efficient management of the business of the society.'

"A few months ago the U. S. Congress passed a co-operative law for the District of Columbia in which a co-operative is defined as an organization for acquiring, producing, building, operating, manufacturing, furnishing, exchanging or distributing any type or types of property, commodities, goods or services for the primary and mutual benefit of the patrons of the association (or their patrons, if any) as ultimate consumers. The latter provision is to enable one cooperative to become a member of another and thus facilitate the creation of cooperative federations.

"It is to be noted also that the terms of Order in Council P. C. 8725, setting up the Commission, include all forms of organizations operated on a cooperative or mutual basis, and organizations claiming so to be organized, and it refers to all these organizations as cooperatives.

"As the terms of reference embrace mutual corporations as well as cooperatives, a few words as to the distinction between these two types of corporation might be helpful. Neither is defined in the Income War Tax Act or in any other Dominion legislation.

"The distinction between a mutual and a cooperative association is partly one of degree and partly basic difference. Mutual corporations, generally speaking, are organizations in which the members group together to obtain benefits for each other which they cannot obtain individually. Cooperatives, on the other hand, are organizations whose members group together to enable them to trade with third persons or other cooperatives at cost, or at a lower cost than they might if they were operating individually.

"V. Types of Cooperatives in Ontario:

"Cooperatives in Ontario, within the terms of Order in Council P. C. 8725, may be divided into six different categories, as follows:-

(a) The United Farmers Co-operative Company Ltd.-

This is the provincial wholesale cooperative, and is unique in the province. It purchases farm supplies for about 120 affiliated cooperative societies, and in addition it carries on marketing service for its members. It owns several factories manufacturing farm supplies.

(b) Farmers' Supply Co-operatives - These are cooperative organizations located chiefly in the rural sections of the province which purchase supplies for their members.

(c) Producer and Marketing Co-operatives - These are, as the name suggests, organizations of primary producers whose chief purpose is to market the products of their members on a cooperative basis. As some of these organizations purchase supplies for their members, there is some overlapping between them and the farmers' supply cooperatives mentioned in paragraph (b).

(d) Urban Consumer Co-operatives - These are organizations of consumers located chiefly in the urban centres which purchase and distribute to their members groceries, food and other articles of a general nature.

(e) Credit Unions - These are cooperative associations organized to promote thrift among their members and to supply them with short-term credit for 'provident and productive purposes.' Their operations differ from the operations of other forms of cooperatives in certain particulars, and they are organized under a separate statute, The Credit Unions Act.

(f) Mutual Insurance Companies - These are organizations handling insurance against fire, lightning, wind-storm, etc. on a mutual basis. They are organized chiefly among rural groups.

"VI. Cooperative Development in the Province:

"To trace the early development of cooperatives in the province of Ontario is to discover again one of the pioneering movements which have played so integral a part in the growth of rural communities in the province. In the latter half of the last century, with the object of mutual assistance to each other and the mutual sharing of the rewards of their labours, the Grange, officially known as Patrons of Husbandry, had its beginning. Producer and marketing cooperatives developed later and specializing cooperatives such as the Canadian Co-operative Wool Growers Ltd., the Ontario Honey Producers Co-operative Co. Ltd., and First Co-operative Packers, came into existence. Some development also took place in the field of urban consumer cooperatives, particularly in Northern Ontario.

"Perhaps the oldest of all the cooperative activities in the province centres around the Farm Mutual Insurance Societies. The most recent development is in connection with the Credit Union Movement and its related activity of cooperative life insurance."

MR. FRANCIS: In presenting the brief from here on, Mr. Chairman, we deal with some specific developments of cooperatives, and we select a few to place before you in a general way.

THE WITNESS: To continue:

" The United Farmers Co-operative Co. Ltd.:

"A review of cooperative development in this province

would not be complete without some reference to this important organization. It was founded on February 7, 1914, and the story of its services to the farm community in the province of Ontario needs no elaboration, but it is well to remember that as a cooperative, the United Farmers Co-operative development and progress has been synonymous with development and progress of rural life in the province. Today the standard of living of farmer-citizens is better because of the activities of the United Farmers Co-operative Co. Ltd. From its early beginnings its services have spread all over the province until now it is known far and wide as Ontario's leading cooperative, which effected savings of over \$100,000 for farmer members and patrons in the year 1944."

MR. FRANCIS: I would like to announce that we have available for the Commission a very interesting and authoritative history of the cooperative in Ontario, written by Mr. H. H. Hannam, now President of the Federation of Agriculture. We would like permission to produce this historical document, which I think will be helpful.

THE WITNESS: I continue:

"Producer and Marketing Cooperatives:

"The development of this section of the cooperative movement in the province has its ground work founded back in the year 1878 when certain producers of fruit, common at the time in the Niagara Peninsula, organized themselves for the protection and advancement of their industry. Out of this early beginning developed the present cooperative marketing enterprise in which most of the producers of fruits and vegetables in the province find an outlet for their product and a source of supplies. Contemporaneous with fruit

and vegetable marketing cooperatives is the development of cooperative marketing of wool, honey, livestock and other farm produce and especially the organization of cooperative creameries and cheese factories. From the best records available it would appear that there are approximately 300 cooperatives in this classification of producer and marketing organizations in the province.

"Canadian Cooperative Wool Growers Ltd.:

"This organization was founded in 1918 by bringing together in February of that year representative sheep owners from every province under the sponsorship of the Dominion Department of Agriculture. From 1913 to 1918 Canadian wool growers had been encouraged by Provincial and Dominion Departments of Agriculture to take a more intensified interest in their product. This organization has been the leading organization since that time in the marketing of wool in the Dominion of Canada. It is organized under a Dominion Charter and does business throughout the Dominion, having its head office in the city of Toronto in Ontario. During the course of its existence it has developed the English market for wool and is now well and definitely known in the British wool trade. During the war years this cooperative has exercised much influence on production of 'wool for victory' and the officers of the cooperative now serve on the board of the government-owned named named the Canadian Wool Board Limited.

"Of the total yearly Canadian output of fleece-wool, amounting to 10,000,000 lbs., the cooperative handle some 6,000,000 lbs. The Canadian Co-operative Wool Growers is the growers' own selling agency and as such it endeavours to (1) place an improved product on the market and to secure for the growers full wool market values (2) to encourage

sheep husbandry in Canada (3) to obtain such prices for wool as to bring reasonable returns to the producer (4) to assist and work with the textile manufacturers wherever possible to encourage the use of Canadian grown wool and to advance the interests of the wool industry as a whole."

MR. FRANCIS: Here again we have a history of the Association that has been prepared by the Company. We have ten copies, if the Commission would like to have it -- a complete history.

THE WITNESS: Continuing:

"Ontario Honey Producers Co-operative Co. Ltd.:

"This cooperative is another of the outstanding developments of the province and most of the commercial honey produced in Ontario is now marketed through this organization. For its fiscal year ending October 31, 1944, it handled 2,890,691 lbs. of honey, having a gross value of \$534,432.09. The cooperative has taken a leading part in the production and grading of honey. In earlier days the production of honey was regarded as something of a hobby but through this cooperative it has become an industry which has stabilized methods of production, scientifically increased volume and quality, and now offers on the market a nationally known essential food.

"Co-operative Packers Ltd.:

"Capaco, as it is commonly known, was organized in the year 1929 and commenced operation in 1931 with a membership built up from the counties of Simcoe, Grey and Dufferin and to some extent in Victoria, Ontario and North York. It was organized for the purpose of marketing livestock and through many ramifications stands today as one of the only successful cooperative packing plants on this continent. It was intended that the plant should cater to the export market but with

the advancement of the depression the export business was in a very bad position. Capaco was handicapped by the combined decline in price of livestock and by the extremely bad situation of the market. In 1934 the Ontario Department of Agriculture, through its Co-operation and Market Branch, made a survey of the Capaco situation and as a result of the survey the province guaranteed limited but necessary bank loans in order to ensure economical operation of the plant. Capaco has continued to improve its operating position and the government loan, which was made on the property, has been liquidated and the enterprise is now progressing rapidly, serving the farmers of the community and playing no small part in the national war effort.

"Farm Supply Purchasing Co-operative:

"These organizations had their origin in the old buying club days of the early United Farmers Co-operative Co. Most of these are now affiliated with the United Farmers Co-operative Co. Ltd. on an Affiliation Agreement for co-operative purchasing, and are exercising important functions in the business of supplying the needs of the farmers of this province. A separate brief is being presented to the Commission on their behalf but the fact should not be overlooked that this phase of cooperative development in this province has been of immense value to the farming community.

"Credit Unions:

"These cooperative credit societies are presenting their own brief which will set out the position of credit unions relative to taxation. Their development goes back to the year 1928 when the first incorporated credit society was organized among certain employees of the Dominion Government in the city of Ottawa."

I would like to suggest, Mr. Chairman, that that should read "the first incorporated cooperative credit society. Continuing:

"Since that time the movement has developed steadily and on December 31, 1944, there were 220 incorporated credit unions in the province of Ontario, with an estimated 40,000 members. These were located in the various sections of the province; 19 being of the rural community type, 15 urban community, 12 connected with co-operatives, 15 racial, 33 religious, 3 educational, 6 among federal government employees, 3 among municipal government employees and the balance among employees of various kinds of industry.

"These credit unions have made available insurance on their savings and loans and the lives of their members through operation in Canada of the Credit Unions Mutual Insurance Society.

"Farmers Mutual Fire Insurance Companies:

"These companies are purely mutual organizations. They are controlled and directed by their farmer-members for mutual benefit and are incorporated under either dominion or provincial legislation. At the end of 1943, there were 67 of them in the province of Ontario with an insurance coverage of \$621,344,236.

"Statistical Information:

"The Marketing Service and Economics Division of the Department of Agriculture at Ottawa have issued fairly complete summaries of cooperative business development in the Dominion of Canada and the following short summary indicates some of the growth of the movement in the province of Ontario. There were 237 cooperative business organizations in the province as of July 31, 1943, with a membership of

\$50,494. Total business of these organizations amounted to \$55,966,902 -- with total assets of \$6,066,495, reserves and surplus \$1,937,844. These figures are based on written reports available to the Department in Ottawa but it must be pointed out that a good many cooperatives in the province of Ontario do not make reports to the Department for the simple reason that there is no legislation or regulation compelling them to do so. Since the organization of the Ontario Co-operative Union the office of the Secretary-Treasurer has on file records indicating that there are, including credit unions and farm mutual insurance societies, between 800 and 900 organizations in this province operating under cooperative or credit union legislation."

MR. FRANCIS: I suggest that the reading of the next five pages be omitted, which will carry us to No. IX at the bottom of page 16.

THE WITNESS: Continuing:

"IX. Comparison of Profit Companies and
Cooperatives:

"It is imperative that the fundamental difference between a cooperative association and a profit corporation be clearly understood, not only with regard to structure but more especially with regard to function and purpose.

"A profit company is a union of invested capital designed expressly to earn a return on the capital in the form of trading profits, those profits being distributed among the investors (shareholders) on the basis of the amount each has invested. Outside the cooperative movement, the cornerstone of the whole system of production and distribution is profit. Profit is the inducement held out for investment. All production and all expanding of

services, and with it all employment and wages, depends on the business continuing to earn a profit. No profit, no private investment; no investment, no production.

"Cooperation, on the other hand, is a union of persons who subscribe capital for the purpose of providing themselves with goods and services at cost, thereby eliminating profit. The inducement held out by cooperatives is not profit, but saving, and service by the members of the cooperative for themselves. The cornerstone of the cooperative system is service at cost.

"A profit company is limited in its ownership to the number of shares it is authorized to issue, and the voting power of each shareholder in the affairs of the company is determined by the number of shares he holds. This makes it possible for one person or a small group of persons to control the company, particularly where proxy voting is permitted.

"A cooperative has open membership, the limit being the physical and economic conditions under which it operates, and not its capital structure. Each member has one vote only regardless of his contribution to the capital.

"A profit company is organized to do business with the general public. As seller it is distinct and different from the buyers, or as buyer it is distinct and different from the sellers. The business thus creates a specific income for the company.

"A cooperative is organized to provide goods and services for its members, and as a corporate body it is merely the agent of its members. The business transactions are by, with and for the members. The members as buyers or sellers are identical and consequently there can be no

trading profit, for a man cannot make a profit out of himself. Neither can the cooperative, though it is a legal entity, have an income from such transactions. (It should be noted that we are ignoring for the moment the business done by some cooperatives with non-members).

"The business transactions of a profit company, generally speaking, are completed at the time of buying or selling. The business transactions of a cooperative with its members, on the other hand, are not completed until an accounting has been made, the cost of doing business ascertained and the excess over cost, if any, distributed to its members. This distribution, or patronage refund, is not in any sense a distribution of profits. It is more in the nature of a trade discount made pursuant to a contract by the cooperative with its members. In some cases, such as in marketing cooperatives, this contract takes the form of a written agreement between the member and his cooperative. In other cases the contract is contained in the by-laws which provide for the patronage refund and on the basis of which the member does business with the cooperative. In Ontario the Companies Act imposes an obligation on all cooperatives to distribute their earnings in this way.

"A profit company is a closed corporation, designed expressly to create profits for the benefit of its shareholders and providing goods and services merely as the means to the making of profit. The cooperative has no income from transactions with its members and consequently makes no profits from such transactions. It is designed expressly to make goods and services more easily available to its members.

"The profit company makes an income for itself and for its shareholders. A cooperative has the single purpose of effecting savings for its members.

"In a word, we may say that a cooperative economic institution is an organized effort to give practical effect to a conviction that human values are of immeasurably greater importance than property values and that the real purpose of an economic order is to bring into the service of humanity, to the greatest possible degree, all the useful resources of nature and all the beneficial achievements of the human mind.

"Whilst it is customary to refer to the capital of a cooperative society as consisting of shares, the custom is merely another illustration of the adoption by cooperators of ordinary commercial terms. A share in a cooperative society is merely a member's contribution to the fund required to enable it to give the service for which it is being established. The returns paid on this capital being generally limited and fixed and not determined by the net surplus are, in effect, interest on borrowed money.

"It should be noted that the trend in cooperative financing is away from a share capital structure. Almost all the cooperatives being organized in Ontario at the present time are organized on a membership basis with no share capital at all. Money to finance the business is obtained by borrowing from its members on loan notes.

"It is obvious that if it were possible to determine in advance what the costs of operating a cooperative society would be, its purpose to give service at cost could be immediately served by doing business at cost. In that case there would be no overcharge and no patronage return, although, of course, a cooperative marketing society might

defer payment of a part of the selling price of the commodity marketed until after the books were closed for the fiscal year.

"For obvious reasons of business safety, however, cooperatives must maintain a margin between cost and selling price and, in order to avoid a price war between cooperatives and others engaged in the same business, the practice is to conform to the custom of the particular trade. It is clear, however, that the margin is not an income to the cooperative but results merely from its particular method of doing business. The cooperative does not exist for the purpose of creating the margin; the margin is a temporary financial safety device set up by the members and returnable to them.

"A marketing cooperative, or a farm supply cooperative, is essentially part of the equipment of the farm and just as a threshing outfit, or a tractor, or a combine, may be jointly owned by two or more farmers, and its use jointly shared, so may a grain elevator, a poultry or livestock-marketing association, or a farm supply society, be jointly owned, be cooperatively used, and the savings it effects shared by those establishing the service. These services, we repeat, are not provided by others than those using them, nor for the purpose of making a profit; they are definitely a part of the productive equipment, created for use and not for profit, and to facilitate in the most economical manner the whole process of production as between producer and consumer.

"The fact that a cooperative in its transactions with members has no income of its own, being merely the agency of its members for the carrying on of mutual services, does

not, of course, mean that its disbursements to members are necessarily tax exempt. They may constitute income in the hands of the recipient, or they may not, according to circumstances. In the cases of marketing and farm supply co-operatives, for instance, patronage refund paid to a member will increase his income and if such income is high enough it will be taxable. Where, however, the savings are effected on household and personal expenses, they constitute no addition to the income of the recipient and are not taxable.

"It should be noted that a cooperative incorporated under the Ontario Companies Act is legally obligated to observe the customary and established rules for the conduct of a cooperative society. This statute, by making obligatory the return of surplus to members in proportion to the business done by each, implicitly recognizes the principle that the funds are the property of the members and do not constitute an income for the cooperative as a legal entity.

"X. Comparative Position of Cooperatives with
Reference to Taxation:

"It is not true that all cooperatives are exempt from taxation, or even that any cooperative is exempt from all taxation. In our opinion, consumers, in the final analysis, pay all taxes imposed on business enterprises whether the business is run for profit or cooperatively. Even the income tax which is theoretically a tax on profits after they have been earned is paid by consumers in that it is their money which provides the profits with which to pay the tax. All that business does is act as a tax collector or tax gatherer for the government. In this conception of the matter cooperatives and profit business operate on the same basis in that neither pays any taxes at all.

"However, in our present economy, business is taxed in a multitude of ways and compelled to pay taxes even though such taxes may be passed on to the consumer. These taxes, imposed by municipal, provincial and dominion governments, include such taxes as the following:-

(a) Imposed by Municipality:-

Real estate tax (including local improvement rates and levies for educational purposes.

Business tax

Municipal license fees.

(b) Imposed by the Province:-

Gasoline taxes

Motor vehicle registration and license fees

Real property transfer taxes

Provincial income taxes	} suspended for duration of war
Corporation taxes	

Stock transfer taxes

Incorporation fees and fees charged for filing returns.

(c) Imposed by the Dominion:-

Customs duties

Sales tax

Gasoline tax

Excise on cheques

Excise taxes on other commodities

Taxes on telephone and telegraph

Unemployment insurance contributions

Income tax

Excess profits taxes

Stock transfer taxes

Taxes on certain railway passenger tickets

"Cooperatives pay all these taxes with the single exception of the income tax and excess profits tax, and under the existing law most Ontario cooperatives pay even the income and excess profits taxes. It is only a relatively small number of marketing and farm supply co-operatives that are exempt and then only if they comply with certain conditions. In some cases, because of provincial law or public necessity, they are unable to comply with the conditions which are necessary to avoid taxation even if they wish to do so.

"There is no law which specifically exempts a bona fide cooperative, whether agricultural or not, from paying tax on patronage refunds. Yet no cooperative, agricultural or otherwise, pays a tax on money refunded to patrons, or on money allocated and earmarked for later distribution to patrons. It is only common sense and common law that money passed on by a cooperative to members cannot be construed logically as income to the cooperative. For that reason, and that reason alone, patronage refunds are deductible from gross income. Since they are not income to the cooperative, but if part of the patrons' income are accounted for in the tax returns of patrons who receive the refunds, they are not taxable in the hands of the cooperatives.

"Both English and Canadian law have given effect to this common sense argument and patronage refunds have never been considered income but rather something in the nature of a trade discount which any corporation is entitled to give to its customers. A Royal Commission set up in 1932 in England to inquire into the taxation of cooperatives came to the conclusion it was a trade discount and recommended that in taxing cooperatives it be treated as an

expense of doing business and be deducted from the gross surplus to determine the income for taxation purposes.

Following the recommendation of the Commission, the Finance Act was amended to tax cooperatives, all of which had theretofore been exempt but the amendment provided for deduction of the patronage refund in the following words:-

'31 (3) It is hereby declared that in computing... any profits or gains of a company or society which include any income which is chargeable to tax by virtue of the foregoing provisions of this section, there are to be deducted as expenses any sums which --

(a) represent a discount, rebate, dividend, or bonus granted by the company or society to members or other persons in respect of amounts paid or payable by or to them on account of their transactions with the company or society, being transactions which are taken into account in the said computation; and

(b) are calculated by reference to the said amounts or to the magnitude of the said transactions and not by reference to the amount of any share or interest in the capital of the company or society.'

"This amendment gave statutory recognition to the true nature of cooperative surpluses, at least to the extent to which they are returned to the members.

"In the United States, the true nature of patronage refunds was confirmed as late as September 29, 1944, in the case of United Co-operatives, Inc. v. Commissioner of Internal Revenue. United Co-operatives, a federation of co-operative wholesales, was incorporated not under co-operative statutes but under the corporation laws of Indiana. However, its articles and by-laws provided that it should

function and operate as a true cooperative. Nevertheless, its right to deduct patronage refunds from gross income was challenged by the Commissioner of Internal Revenue. This was the issue decided by the tax court September 29. The court held that patronage refunds are a legitimate deduction from gross income. In other words, the litigation ended in favour of the cooperative, even though it was incorporated not as a cooperative but under the ordinary corporation laws of the State.

"Further evidence of the non-income or non-profit nature of the surpluses of cooperatives is to be found in the fact that if such surpluses were to be taxed as income a cooperative could, by lowering prices, so arrange its affairs that it had no surplus on which to base a tax without affecting the net cost to its members in any way. There is no obligation on a corporation subject to the payment of income tax to earn a taxable income; the only obligation is to pay tax once the income is earned. We submit a cooperative does not earn any income, or at least that portion of its surplus which is returned to its members or patrons is not income, and hence, should not be taxed. In this respect they are no different than any other corporation which may if it wishes so conduct its affairs that it will not earn income and will not be taxable.

"We submit that there is no inequity or unfairness in the application of the Income War Tax Act and Excess Profits Tax Act as between cooperatives and other types of business. Each pays tax on its income properly defined. The only cooperatives that are exempt are those in a limited class of primary producers which comply with certain

conditions, and this exemption is justified by the social value of such cooperatives to the community in raising the economical level of our primary producers without increasing the ultimate cost of their products to the consumer -- a thing which every government for the past thirty years has been anxious to do.

"XI. Recommendations:

"We understand that specific recommendations for the amendment of the Income War Tax Act and the Excess Profits Tax Act will be made to the Commission by the Co-operative Union of Canada at later sittings. For this reason the Ontario Co-operative Union wishes to reserve any recommendations it may have until that time and if necessary to have a further opportunity of appearing before the Commission.

"There are, however, certain recommendations which the Ontario Co-operative Union is prepared to make at this stage, reserving the right to supplement them at later sittings of the Commission:-

(a) that a proper definition of a cooperative be inserted in the Income War Tax Act and Excess Profits Tax Act;

(b) that provision be made for the incorporation of cooperatives under Dominion law;

(c) that recognizing the great social benefits of cooperatives and that the patronage refund is not income in any true sense, all cooperatives be exempt from the payment of Income Tax and Excess Profits Tax, by statute, on patronage returns.

(d) that cooperatives, including credit unions, be excluded from the provisions of section 92 of the Income

War Tax Act and not obligated to deduct tax at the source on dividends.

"All of which is respectfully submitted by

Ontario Co-operative Union."

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The Commission adjourned at 4.40 p. m. to meet on Tuesday, February 13, 1945, at 10 a. m.

.....

Toronto, Ontario
Tuesday,
February 13, 1945.

The Commission met at 10 a.m., Mr. Justice McDougall presiding.

Examination of Albert C. Savage, continued

BY MR. PARKER:

Q. There are just one or two general questions I desire to ask you concerning your brief and after I have concluded the Commissioners no doubt will wish to examine you to some extent. The first point is this. I notice in your brief, in common with some others that have been submitted to the Commission, that you place great emphasis on the fact that one member has one vote as a distinguishing feature of cooperatives. Is that correct? A. Yes, that is right.

Q. And secondly that proxies are disallowed?
A. Yes, that is right.

Q. Is it true that in the cooperatives in Ontario there is what is known as a system of delegate voting?
A. It is true in some respects, that is, in connection with the federations of cooperatives like the United Farmers Co-operative Company.

Q. The big federations operate on that basis? A. Yes.

Q. That is, the territory in which they operate is divided into districts and the district members meet and appoint one delegate who votes on behalf of the members in that district? A. Yes.

Q. Would you not call that a species of proxy voting, where one man votes on behalf of fifty or more in a district? A. Not according to my understanding of the use of that word proxy. My understanding is that a proxy is

exercised where somebody has authority to vote for someone else on an individual basis; but these people are appointed and elected democratically to represent a group of their fellows.

Q. In other words, your delegate, theoretically at least, has the power to vote on behalf of some member who perhaps may not want him to vote? A. Possibly.

Q. Do you see any fundamental difference between that and what is known as proxy voting in a joint stock company? A. Well, the delegate representing the members of a co-operative is appointed on a somewhat different basis; that is to say, he is appointed at a meeting called democratic-ally for the purpose of choosing delegates.

Q. In the case of the individual proxy in an ordinary company, the individual selects the proxy he wants personally, whether he exercises his own judgment or not, whereas in the case of the delegate he has authority to vote for someone who might not want that delegate to vote for him? A. That is right.

Q. In your brief you make a statement to the effect that a corporation makes a profit both for itself and for its members, whereas the cooperative only makes savings for its members. I cannot give the exact page, but I think I have summarized it. A. That is a fair summary.

Q. I do not quite get what you mean by saying that the company makes profit for itself and its members. Assuming it does, we understand what becomes of that profit which it makes for its members. In due course the member gets it. A. Perhaps our language is a little involved there. It is true that any profit made by the company would be profit made for the shareholders of the company as well.

Q. The company itself cannot use it except for and on behalf of its members? A. Except as the board of directors may decide.

Q. They may squander it; but my point is that the company cannot for itself use its money any more than a cooperative can use its money for itself. It must be for the benefit of the members. Do you agree with that?

A. I would think so.

Q. So I suggest that there is not much difference between a cooperative and a company, in principle. Do you agree with me? A. I think there is a distinction. We have to take the picture as a whole. The principle of the cooperative movement is to make savings for the members.

Q. And by the same token the business of a company is to make profits for its members as distinct from itself? A. Yes.

Q. Then you make this statement in effect -- I am not quoting your words exactly. I cannot give the page, but I think I am quoting you correctly when I suggest that, in respect of the margin, that is to say, the difference between selling price and cost, you contend that if they were taxed the cooperatives could so operate -- practically at cost -- as to have no margin? A. Yes; they could do so.

Q. I am suggesting to you that if they did undertake to operate on that basis, without a very safe margin as they do, they would of necessity be forced out of business sooner or later? A. If they ran into a bad year they might be forced out of business.

Q. It is inevitable? A. If they ran into a bad year.

Q. From a purely theoretical point of view it might

be all right; they might operate at cost; but as a practical matter it is not feasible, is it? A. I think I would say that is one of the fundamental principles of the cooperative movement, that we do business at current market prices. There are two reasons. One is that we wish to establish a safety margin in doing business, and the other is that we wish to do business at the current market price with other people.

Q. But we must be practical in this world, we must not be too theoretical. As a practical method of doing business the cooperatives could not operate on that theoretical basis, namely, at cost, could they?

A. I would say it would be very risky.

Q. The probable result would be that if they got into trouble they would go under or they would have to seek assistance somewhere? A. From their members probably. They might have to borrow money from some other source than their membership.

Q. And if they did not have the necessary collateral where would they likely go for that assistance?

A. I don't know.

Q. Judging from the past? A. If they did not have collateral I would say, judging from past experience, that they would go to their membership. That is the only place. Sometimes they might get it from the government, but the government wants pretty fair collateral as a rule, in this province at any rate. As a matter of fact I can tell you, Mr. Chairman, that the government in this province wants more collateral as a rule than the bank does.

Q. There may be a variation in that regard in the different provinces. Now, as I understand your presentation -- perhaps I misunderstand it -- you base your

argument on the effect of the provincial statute which defines a cooperative and lays down certain rules on which cooperatives should operate? A. Yes.

Q. I presume you will agree with me if I say that these provincial statutes cannot be of any assistance in studying the problem which is now before the Commission and in determining what is a cooperative such as would be exempt within the meaning of the Dominion Income Tax Act.

A. I don't know whether I understand that.

Q. Supposing that the provincial statute under which your society may be incorporated gives a definition, satisfactory to the members of that society, of what a cooperative is, and lays down certain rules in accordance with which cooperatives must operate; and supposing further that it defines "profits", "income", and all the other terms the precise meaning of which may be difficult of determination: if the Dominion Government, in its Income Tax Act, did not adopt the same definitions then the provincial statute would not assist in deciding what constitutes profit or income within the meaning of the Income Tax Act? A. I can agree with that.

MR. FRANCIS: That is a question of law.

THE CHAIRMAN: The witness agrees with it.

MR. PARKER: There are questions of law in the brief.

THE CHAIRMAN: We are not bound by the opinion of the witness on questions of law.

BY MR. PARKER:

Q. I take it also from your brief that in your view everything would be satisfactory, so far as the cooperatives are concerned, if the present exemptions provided for in the Income Tax Act were continued as they are.

You are not suggesting any change? A. I think we are

suggesting changes. We are suggesting that section 4 (p) of the Income Tax Act should be clarified.

Q. What is there that is not clear about it so far as cooperatives are concerned? A. A good many things. We sometimes wonder ourselves what it really means. For example, it only covers certain types of cooperatives.

Q. That is what I am getting at. What types? A. Fishermen's, lumbermen's, fruit-growers' and such like.

Q. "And other like associations". That is your difficulty? A. It is in part.

Q. At least, that is one of your difficulties? A. Yes.

Q. In your view, as one who is familiar with the wording of this Act, do you understand it to restrict the exemption to those types of cooperatives listed -- that is, primary producers like fishermen, farmers and what not, and other primary producers? Is that your understanding of it? A. I am not in a position to explain what is meant by the use of that word "other".

Q. I am asking what your understanding of it is. A. I cannot understand it.

Q. If you do not know I will not press you on it, but perhaps you will go to this extent. Has the association which you represent been operating on the assumption that it is wide enough to include the processing and manufacturing of primary products and engaging in export trade? Do you think it is that wide? A. I have heard people argue that it is and I have also heard others argue that it is not.

Q. So have I; but I want the opinion of one who is associated with the business, as to whether it goes that

far. A. I am very doubtful whether it does. I will go to that extent.

Q. You are inclined to agree that it is limited to primary producers of consumer's goods? A. It is certainly limited in some respects.

Q. But just where the limit is, it is difficult to draw the line? A. Yes.

Q. That leads to this question. If section 4 (p) were withdrawn or repealed, removing whatever exemption is conferred upon such types of societies as enjoy the benefit of that exemption, and if all cooperatives had to depend on their actual method of operation in carrying on their business, whether or not they operate so as to have any income, would the society which you represent be satisfied?

A. I am sorry I cannot give a direct answer to that, because the Ontario Co-operative Union has not yet considered its policy so far as that question is concerned.

While we have made some recommendations at the end of the brief, the final consideration of the whole matter is yet to be undertaken by the union.

Q. On page twenty-four, under "recommendations", you suggest that a proper definition of a cooperative be inserted in the Income Tax Act and Excess Profits Tax Act. By that I take it you mean that the clause in question should be made perfectly clear? A. Yes.

Q. As to what cooperatives are exempt, so that there will be no further difficulty in the future? A. Yes.

Q. Have you thought the matter through to the point where you can advise the Commission on the scope of such an amendment? In other words, could you help us with a proper definition of "cooperative" of such a type as ought to be exempted? A. No. In the brief there are

some references to what has been considered a proper type of cooperative in other countries.

Q. Such as Costa Rica? A. Yes.

Q. And the United States? A. The District of Columbia. We have mentioned these in the brief because we hoped that it would be helpful to the Commission. We are not prepared to go further than that at the moment.

Q. Are you prepared to say that either of these, or some modification thereof, would meet the situation?

A. I think some modification or perhaps expansion of it would.

Q. But you have not got to the point where you are prepared to propose a final definition and say, "That is good enough for us"? A. That is right.

Q. Your second recommendation is that provision should be made for the incorporation of cooperatives under Dominion law. Why do you say that? A. There are some cooperatives that are doing business extending outside this province and I think that is the reason behind the suggestion. Some of them feel that they should have the privilege of applying for Dominion charter if they wish.

Q. Don't your cooperatives do business outside the province? A. Yes.

Q. You are not restricted in that respect? A. No.

Q. What would a Dominion charter add to that?

A. It is felt that if a cooperative wanted a Dominion charter they should be able to get it. I don't know that there is any immediate advantage to it.

Q. They do not want it merely for the sake of having it; it must be because it serves some purpose.

BY MR. ARNASON:

Q. With reference to your recommendation respecting

a Dominion Co-operative Act, do you think it would be of assistance if a definition of what constitutes a co-operative were inserted into that Act? A. I think it would.

Q. Do you think that would tend towards a certain degree of uniformity of legislation in the various provinces, in that they would be inclined to insert a similar definition in their statutes? A. I think so. I think it might be a guide for the provinces.

BY MR. PARKER:

Q. It would be more helpful if that definition were placed in the Dominion Income Tax Act and copied from that into the Provincial Co-operative Acts? A. We felt the other way, that if we had it in our legislation it might influence the Dominion Income Tax Act.

Q. Finally you recommend: "(c) that recognizing the great social benefits of cooperatives and that the patronage refund is not income in any true sense, all cooperatives be exempt from the payment of income tax and excess profits tax, by statute, on patronage returns." That recommendation is based on the argument that they should be exempt because of their social character? A. It is one of the arguments, I presume.

Q. By inference, does your suggestion exclude from exemption reserves of amounts allocated but not paid? A. Not in this suggestion at the present time. I think we are dealing only with patronage returns.

Q. By "returns" you mean the amount actually paid rather than amounts credited on the books of the company and held back for working capital? A. "Paid or allocated" was the way it was submitted by our committee, although it does not so say there.

Q. Does your recommendation refer merely to amounts paid in the year in which they were earned or saved? Are those the amounts that you are recommending should be exempt, or are you asking to have exempted not only those but such amounts as may be credited in the books of the cooperative to be actually paid at some future date?

A. In this recommendation we intended to include both those.

Q. Did you intend to include the reserves?

A. I don't think we have come to the point where we make a recommendation on that.

Q. Have you considered the status of the reserves?

A. Generally.

Q. Have you come to any conclusion? A. We have not come to any conclusion.

Q. As to whether they should be properly taxable in the hands of the cooperative? A. No.

Q. Your obvious recommendation is that this nuisance should be abolished? A. Yes.

Q. You lay down very carefully the principles which make up the Rochdale plan, the forerunner of all these movements. Now these principles were pretty strict in the old days? A. Yes.

Q. Do you agree with me that the cooperatives in Ontario, including the one on whose behalf you speak of today, have departed considerably from those original principles? A. I don't know whether I agree with you in saying that they have departed very far from them, but they have departed.

Q. How far, and in what particulars have they departed? A. For example, I think the practice of doing business with others than members is a departure

from one of the Rochdale principles.

Q. Do you think that carrying on processing and manufacturing, and engaging in export business, is a departure? A. No, I don't think it is, because if we read the literature in existence, so far as the Rochdale principles are concerned, we find that the Rochdale pioneers definitely contemplated going into processing and manufacturing.

Q. Why do you say they contemplated it? In their actual operations did they go that far? A. Perhaps the original society did not but it was their intention.

Q. Was that intention expressed in the rules of the society? A. It is expressed in the records extant that eventually they contemplated that their society would develop into something a good deal wider than it was at its inauguration.

Q. I am not very familiar with all that ancient literature, but for the record can you give us a reference to some source where we can find it? A. I can't give it from memory but I can supply the Commission with it.

THE CHAIRMAN: It is contained in a number of works. In reply to Mr. Parker, you spoke of your margin of safety, meaning thereby the reserve you are able to put by?

THE WITNESS: I believe the reference was to the fact that it was necessary to have some margin in order to operate the business on a safety basis.

THE CHAIRMAN: That margin is supplied from the reserves you set aside?

THE WITNESS: Yes.

THE CHAIRMAN: Do you regard it as any departure from cooperative principles that the annual distribution should be deferred for a number of years in order to create your

reserve? Is that an original cooperative principle?

THE WITNESS: I think that if we take the Rochdale principles literally it is a departure.

THE CHAIRMAN: Otherwise you would have no such margin of safety or reserve?

THE WITNESS: That is right.

THE CHAIRMAN: That is what I understood you to say.

BY MR. PARKER:

Q. That is another departure? A. Yes. May I say that I think we all agree that down through the hundred years that this movement has been in operation it has been necessary in some respects to depart from the Rochdale principles.

THE CHAIRMAN: The only reason I asked the question was that it has been insisted in so many briefs that the Rochdale principles are still observed without much qualification.

THE WITNESS: I would not go that far, sir.

BY MR. PARKER:

Q. On page twenty-one you make an argument with respect to double taxation. A. Is that on page twenty-one?

Q. Or page twenty-two. You argue that by reason of some law or from necessity cooperatives are prevented from operating on strictly cooperative principles? A. Yes.

Q. What law or what necessity would prevent a company operating on true cooperative principles if it honestly wanted to do so? A. Would you mind if I answered that in two ways? First of all, so far as law is concerned, there are the regulations of the Wartime Prices and Trade Board -- for example, in relation to the selling of fertilizers. A cooperative handling and selling

fertilizer is bound by the regulations of the Wartime Prices and Trade Board and it must, according to those regulations, sell to anyone in the district, whether members or not. That is a matter of law that prevents the cooperative or might prevent the cooperative from qualifying under section 4 (p).

Q. Under the 20 per cent provision? A. Yes. And so far as necessity is concerned, the question of public need, I would give an illustration. I have in mind a cooperative we have in this province, a consumer's cooperative store which is the only store in a community of 1,200 people. It is a matter of necessity that that cooperative should supply the people there with consumable goods. That cooperative could not say to anyone, "We will not supply you with goods because you are not a member."

Q. Why? A. Public necessity demands that the cooperative shall supply the people in that community with goods as a public service; otherwise those people might not get anything to eat.

Q. They could easily become members? A. We have not found it to work out so.

Q. You have not a system whereby everyone who buys a pound of tea, let us say, automatically becomes a member? A. No.

Q. You do not have that type of membership? A. We have no automatic memberships in this province. In the community to which I have reference the general manager of one of the big mining companies is a patron of the cooperative store but he would not want to be a member of the cooperative, on principle.

THE CHAIRMAN: Even some of opposing counsel in this inquiry are members of cooperatives.

THE WITNESS: I quite appreciate that; I have heard about it. I would not be surprised if, when this inquiry is over, we have a good many more.

BY MR. PARKER:

Q. At the bottom of page twenty and the top of page twenty-one you make an interesting argument which, if I apprehend it correctly, means that you wash out any difference between company taxation and cooperative taxation. You say that in the final analysis it is all paid by the consumer anyway? A. Yes.

Q. So that all this talk about the company paying taxation is artificial in any case? A. Yes.

Q. Assuming that your argument is sound, you say that at the present time you are on an even keel anyway, that there is no such thing as double taxation in the ordinary company? A. We say in the brief that in this respect we are all equal in that the consumer in the final analysis pays all taxes anyway.

Q. In the case of the ordinary company there is paid first the corporation tax and then the shareholders have to pay on personal income from dividends they receive and that has sometimes been referred to as double taxation, but you say it is not double taxation at all. It is really all paid by the shareholders in the final analysis, only the company pays the shot in the first instance and they pay on their own income -- they pay the second shot. At any rate, it is in essence all shareholders' money that is being taxed. Is that your position?

A. Perhaps I could go a little further than that and say that these taxes have to be taken care of somewhere and the taxes that are paid by a corporation have to be included in the cost of the goods they sell finally, and

on that basis we make the argument that all the taxes are paid by the consumer in the last analysis.

Q. One other question. In the brief you state that you are unable to give official figures on all cooperatives in this province because they are not compelled to file returns and therefore the returns would be incomplete?

A. That is right.

Q. There is no compulsion on cooperatives to make returns? A. No.

Q. But many do voluntarily? A. Yes.

Q. And many do not? A. That is right.

Q. May I ask whether you can give any reason why those who do not do so do not show more cooperation with the government and file their returns? A. The reason is that there has been, particularly in this province, no supervision of cooperatives.

Q. By any government authority? A. By any government authority and recently not by any cooperative authority. We would be very glad to have some system whereby the cooperatives would by law be compelled to make returns.

Q. Have you ever approached the legislature to make such a law? A. Not yet.

Q. Have you set up any supervisory authority among yourselves so that they would all report to you?

A. Not so that they would all report to us, but we have in some ways set up some supervisory authority, though not an authority that requires reports.

Q. In your brief, which is general only, there are four concerns particularly referred to -- the wool growers, the cooperative honey producers, the packers and the wholesalers. I am not giving the official names. A. Yes.

Q. Those would be four pretty representative and substantial cooperative societies in this province? A. Yes.

Q. I am putting this request to you formally. Will you undertake to supply the Commission with financial statements in detail, either in the form of a brief to be sent later or in sufficient detail to enable the Commission to have a clear idea of how these four big companies operate?

MR. FRANCIS: We shall be glad to do that.

MR. PARKER: Mr. Francis understands the type of information that should be included there.

MR. FRANCIS: We will amplify the financial statements to some extent.

THE CHAIRMAN: On page twenty-three I see the suggestion is made that if the cooperatives were to be taxed there would be a means of freeing them from their taxation by having no surplus?

THE WITNESS: Yes.

THE CHAIRMAN: Then what would become of your reserves?

THE WITNESS: I think that if we followed that through there would not be any reserves. That is one of the things that we have been talking about this morning. As a margin of safety, it is necessary to have reserves and if a cooperative did undertake to do business at cost it might decide that it would not have either reserves or margin; in other words, it would follow the unsound business principle of taking a chance.

BY MR. NADEAU:

Q. Would they not then use the loan unit system to replace those reserves? A. They might do that, sir, if they needed financial support. They might call on their members to put up any additional loans.

Q. Is there a general tendency in this province for the cooperatives to change from the share capital system to the loan unit system? A. Yes, there is.

Q. How long has that practice been going on? A. Well, it has been particularly evident in the year 1944.

Q. Was it long after your recent amendment to your cooperative law regarding the loan unit system? A. I am not sure of the date on which that amendment came in but I think I am correct in saying that the development towards incorporation without share capital has been very recent. It came to a head certainly in 1944 but there was some evidence of it before that time and it has been the practice since provision was made in the Act for incorporations of that kind.

Q. Can you give any reasons for that? A. One reason is that we feel it is more the cooperative way of financing, that is on a member-loan basis rather than on the share capital basis. It is a more flexible method of financing.

Q. Is it in accordance with Rochdale principles? A. I think so.

Q. Are you paying any interest on those loan units? A. It varies considerably in the different provinces. In some cases they do not pay interest at all.

Q. Is it so in most cases? A. In most cases they do pay a moderate rate of interest.

Q. They have reduced their interest compared to the rate of interest paid on share capital recently? A. Yes.

MR. FRANCIS: Section 147A came into force in 1942.

BY MR. VAUGHAN:

Q. There are a few differences between what you call the profit company and the cooperative which I would like to point out. A profit company, you say, is limited in its ownership to the number of shares it is authorized to issue, and as against that you state that the cooperative has open membership, the limit being the economic conditions under which it operates. Taking into consideration the fact that the so-called profit company may increase its capital according to its requirements, is there any difference between the two? A. Yes, I think there is.

Q. In what way? A. The increase in capital might be held by two or three individuals in the private company but in the case of a cooperative the increase takes place over a whole group of people.

Q. But that is not the point in your argument, because you say that a profit company is limited in its ownership to the number of shares it is authorized to issue. A private company can issue further shares according to its requirements. It does not matter who buys the shares; anyone might buy them. The point is that more shares are issued according to the requirements of the company, whereas you argue that with cooperatives it is open membership, the limit being the physical and economic conditions under which the cooperative operates? A. Yes.

Q. Both can obtain capital to operate according to their requirements. It can be done in a so-called profit company and it can be done in a cooperative. They are the same in that respect? A. I think I can agree in so far as their ability to obtain capital for their requirements is concerned. They both have the opportunity if they want

to do so.

Q. The private company is not limited to its present issue; it can make further issues as required? A. Yes.

Q. You also state that the profit company is organized to do business with the general public, and in the paragraph following you say that a cooperative is organized to provide goods and services for its members. The cooperative store supplies services to anyone who comes in to buy, however? A. Yes.

Q. Well, is not that dealing with the public? A. Yes, but the point is that the cooperative is organized to do that job on the basis that we suggest.

Q. But it is what it really does rather than what it is organized to do that we are concerned with.

A. In a consumers store they do.

Q. They sell to anyone that comes in? A. Yes.

Q. And in the same way the private company sells to the public? A. Yes.

Q. So that there is no difference? A. In that respect there is no difference at all.

Q. Later on you mention the different taxes that are paid. I am asking for information. Do you know if the sales tax is paid or charged -- either one or the other -- on the manufacturing and processing that is done in cooperatives? A. I think I can answer fairly accurately, sir; that it is.

Q. What is "fairly accurately"? Do you think it is done in all cases? A. The sales tax comes under the Special War Revenue Act.

Q. I know it is under a different Act but I bring it up because you mention it. A. The cooperatives are not exempt from the operation of the Special War Revenue

Act and as such, if they were in the manufacturing business, they would be subject to the payment of sales tax.

Q. They are subject to taxation in connection with their processing? A. Yes.

Q. But you are not sure how far they bear that tax or charge it forward? A. No.

Q. You say they pay all these taxes. That is what you say in the brief. A. I am satisfied they pay the sales tax.

Q. Entirely or partially? A. I could not tell you the extent.

Q. The brief says they pay all these taxes. However, I take it you are not sure of that? A. We are not objecting to paying it.

BY MR. ELLIOTT:

Q. In that same section, in the comparison between profit companies and cooperatives, I take it that the purpose of the section, the reason why it has been included, is to show that there is a difference in the objects for which the two sorts of companies are organized? A. Yes.

Q. That is probably the main reason for putting that in. It is quite difficult demonstratively to discover the purpose? A. Yes.

Q. I would like to go through with you a number of these points and ask you what you think is the significance of the differences from the standpoint of administering taxation. To begin with, on page seventeen you say: "Cooperation, on the other hand, is a union of persons who subscribe capital for the purpose of providing themselves with goods and services at cost." There is one preliminary point there. Presumably the members get an advantage through subscribing this capital? A. Yes sir; I think

that is so.

Q. And that advantage is an inducement which leads them to describe capital? A. That is the principle of the cooperative.

Q. You say: "The inducement held out by cooperatives is not profit, but saving, and service by the members of the cooperative for themselves." That saving and that service depend upon the use of invested funds -- in part?

A. Yes.

Q. So that the members obtain an advantage from using their funds in a cooperative organization? A. That is right, I think, yes.

Q. I have asked this question a number of times before: Is there any way of measuring in dollars and cents the advantage -- I am excluding the social advantages -- of the saving that they get from this method of procedure?

A. I could not give you any fixed measure for it. It seems to me that it can only be decided at the end of the period of operation as to what the practical or financial advantage is to the member from the use of his cooperative, and it might vary in different cases.

Q. You are thinking of the patronage dividend now as a measure of the advantage? A. Yes.

Q. If, as you suggest, the cooperatives, speaking of the consumer cooperatives, changed their policy to charging lower than the current price, then the patronage dividend would no longer measure the advantage obtained by the members from acting cooperatively? A. I would say it would not accurately measure it.

Q. And if, as sometimes happens, the cooperative organization were to charge a somewhat higher price than other stores in the district, the patronage dividend in

that case would not exactly measure the advantage to the members? A. I agree.

Q. Do you consider the inducement that you hold out to your members to subscribe capital to be as strong as, or either stronger or less strong than, the inducement the ordinary company holds out to the prospective buyers of its shares, or have you enough experience to offer an opinion on that question? A. If I may express an opinion on it, I would say that the cooperative does offer a greater inducement to its members to invest funds in the organization than a private company does.

Q. Then why are not all funds invested in cooperatives?

A. That is one thing we cannot understand, sir.

Q. In the raising of funds, then, you do not feel yourself at any disadvantage as compared with the non-cooperative companies? A. No, sir. I do not think we are in so far as the raising of funds is concerned. There is no disadvantage that I know of.

Q. You say: "A cooperative is organized to provide goods and services for its members, and as a corporate body it is merely the agent of its members." Would you say in the same sense that the non-cooperative corporation was the agent of its members in making profits for its members? A. Not necessarily so.

Q. Will you explain what you mean by "not necessarily so"? A. In the first instance, in the case of a cooperative, it is organized with that object in view, that is, the object of supplying goods and services for its members. In so far as the profit company is concerned, it is not organized with the object in view of providing goods and services to its members, whom I class as share-

holders, but rather to a third party. The objective in the case of the profit company is to provide a profit for the shareholders, but they provide goods and services to a third party who is outside the shareholders.

Q. My question concerns the idea of acting as agent, however. A. In my opinion, sir, the private company does not act as agent for its shareholders.

Q. Even in the making of profits? A. Maybe in the making of profits, but not in the provision of goods and services. I think I can agree that it acts as agent for its shareholders in the making of profits.

THE CHAIRMAN: I suppose you admit that purposes and performances are not quite the same?

THE WITNESS: I agree, sir.

BY MR. ARNASON:

Q. You made one remark among others that interested me, and that was the statement to the effect that in this province the cooperatives do not grant membership on the basis of patronage only but on the basis of a written application for membership. Is that correct? A. It is not quite correct, sir. There are some memberships accepted without written application but not on an automatic basis. The membership is on the basis of verbal application. That is the difference I want to make.

Q. Just under what conditions would that verbal application be made? A. In some cases the application for membership is a written one, but in the illustration I want to give you the procedure is something like this. An individual expresses a desire to become a member of a cooperative and that desire is conveyed to the board of directors either by the manager or by some director and

it is put before the board, and in that way it is either accepted or rejected. If it is favourably received that individual becomes a member.

Q. In the previous hearings it has been pointed out that the patron, or shall we say the shipper to a marketing cooperative can, by virtue of shipping his produce to the organization, become a member on the basis that his share of the earnings is credited to him and applied towards a membership fee or a membership share; and in some instances it is provided that when the amount accumulated is sufficient to pay for the share or the membership fee the patron is made a member of the organization by the board of directors? A. Yes.

Q. Without going into the reasons for that policy, do you think it would be advisable, as a matter of cooperative policy, to insist that in every case, regardless of whether the patron has accumulated a certain quota in the organization or not, the patron should be required to sign an application form? A. Personally I would be all for it.

Q. One other question. A number of questions have been asked with regard to the reserve. At previous hearings the meaning of the word "reserve" has been taken to comprise two things. There is first of all the reserve which the cooperative is required by statute to set aside, the reserve for contingencies, and then there is the so-called deferred dividend reserve which is used as operating capital? A. Yes.

Q. Do you know of any instance in this province where a cooperative has paid out its patronage dividends in the year in which they were earned and at the same time has asked the members to return a portion of the dividends to

the organization in the form of loan capital? A. Yes.

Q. Do you follow me? A. Yes, I do.

Q. Do you know of any such cases? A. Yes, I do.

Q. Could you give us a little more information about that? A. That will be dealt with in all probability by a subsequent brief, but I do know of cases where cooperatives have paid out their earnings and, having paid them out, they have approached the members and -- in general meeting of course -- the members themselves have agreed to plough the earnings back into the cooperative in the form of capital.

BY MR. PARKER:

Q. There is one question I omitted. I have read, either in this brief or in some of the others to follow, that some of the cooperatives in Ontario have been paying income tax. A. That is in this brief.

Q. As regards those of which you have knowledge, on what basis have they been paying income tax? They paid it in respect of what portion of their receipts?

A. Everything except patronage returns, and in some cases they even paid on patronage returns.

Q. Mr. Commissioner Arnason referred to the statutory reserve and the deferred dividend reserve? A. Yes.

Q. They are taxed? A. Yes.

Q. And in some cases the patronage dividends?

A. Yes.

Q. It is not uniform? A. I know it is not uniform and that is one of the things we complain of in the brief, lack of uniformity.

Q. Can you tell us the basis on which it has been operated in this province? A. Even in this province

there is no uniformity in regard to it.

Q. Is it a case of those paying who want to pay and those who do not want to pay not paying? A. It is a matter of opinion on the part of the income tax inspector.

Q. That is the local inspector? A. The divisional inspector in charge of a certain inspection district.

Q. This province is divided into a number of districts? A. Yes. I am not sure how many, but I think there are seven or eight inspection districts.

Q. Can you name some district in which their rulings or their instructions, or whatever they are, have been to pay on certain things? A. The Hamilton district, for example, has instructed the cooperative to pay income tax on patronage returns.

Q. And on reserves -- deferred reserves? A. Yes.

Q. Has any other district followed that practice? A. I am not sure but I believe that Timmins comes within the Ottawa district, and while they have not asked them to pay on patronage dividends in the Ottawa district they have asked them to pay on other things.

Q. And have they been paying? A. Yes.

Q. Can you mention another district in which they have been advised that they do not have to pay on anything?

A. I think that question can be correctly answered by saying, the Toronto district if the cooperative qualifies under 4 (p).

Q. Is there any uniformity as to what constitutes qualification? A. So far as membership qualification is concerned.

Q. The 20 per cent? A. Yes.

Q. But apart from the 20 per cent clause, looking at

the nature of a particular cooperative and considering the question whether it is doing business cooperatively or not, is there any ruling in that regard? A. I am sorry, but I don't get that.

Q. Is there any ruling given whereby any cooperative has been asked to pay taxes on the ground that it was not truly cooperative? A. Yes.

Q. And have they done so? A. Yes.

Q. Societies which, in your opinion at any rate and in the opinion of your associates, are really cooperatives should not be paying? A. There are some cases where in my judgment cooperatives are operating as cooperatives and they should not have been paying taxes but they have been called upon to do so.

Q. But they have never made an issue of it in the courts? A. Not in the courts, no.

BY MR. CARSON:

Q. When a cooperative is organized it must have money to start on? A. Yes.

Q. And that money is furnished either by members subscribing for membership or by members lending money to the organization? A. Yes.

Q. And that represents, I suppose, the capital with which the cooperative gets under way? A. That is right.

Q. And after the cooperative is formed -- I am speaking of a consumer cooperative -- it must buy goods? A. Yes.

Q. Commodities. Taking the illustration I put to the Commission yesterday, if the cost of purchases is represented by X, that is the total over-all cost of purchases in a given period, say the calendar year, and if the

revenue from sales is represented by the letter Y -- do you follow that? A. I do, yes.

Q. And the expenses of operation might be designated Y minus 1, then the difference between Y and Y minus 1 might be Y minus 2, the net revenue. Do you follow that? A. Yes.

Q. And then you get down to the letter Z. I will not use the controversial word profit or gain but the word "differential". Now if Z represents the differential, that is the difference between X and Y minus 2, may I take it first that the object of the cooperative would not be to have minus Z? It would not want to have minus Z? A. That is right.

Q. And it would not want to have equal Z, where it broke even? A. It might. I know of some cooperatives that would want that, where they would break even.

Q. If the income tax fell on them they might carry on so as to have equal Z? A. Yes.

Q. You would not look on it as sound business policy so to plan operations that at the end of the year they would arrive at equal Z? A. It depends on the type of cooperative of course.

Q. Is there any cooperative that would want to come out equal Z? A. Yes.

Q. For a particular year, not knowing what pitfalls there might be the following year? A. Yes, if that were their basis of doing business.

Q. Is that at all likely under present conditions? A. It is not a sound business practice.

Q. Let us assume that they carried on their operations on sound business principles, because that ought to be the cornerstone of cooperative principles.

A. Depending on the kind of cooperative it is.

Q. Take the illustration I have been giving you -- a consumer cooperative. A. My vision of a cooperative is a good deal broader than yours. I include service to consumer and to producer. I take the whole gamut of them.

Q. I have to be careful because you know more than I do about this. I am putting the case of a consumer cooperative to you and I am suggesting that in the case of a consumer cooperative they would certainly not have the objective of arriving at minus Z for the year's operation?

A. No.

Q. Nor equal Z for the year's operations? A. They might not.

Q. It is unlikely? A. It is unlikely, yes.

Q. So that speaking generally their objective should be to arrive at plus Z? A. Yes.

Q. Then if they arrive at plus Z they have that margin of money over and above the cost of goods and expenses. That is right? A. Yes; they have that margin.

Q. I am avoiding controversial words with you. And that margin may then be used by way of distribution to members? A. Yes.

Q. To some extent non-members, in the case of some cooperatives? A. It can be patrons who are not members.

Q. And then what is left may be put aside in the form of reserves? A. Yes.

Q. Now then, in the case of a consumer cooperative, I suppose you have some where you may have 500 members?

A. Yes, we have.

Q. In that type of cooperative, with 500 members, you may have 2,000 patrons who are not members. Am I out in the relationship? A. Yes.

Q. What would it be? A. It would be the other way around; the membership would be represented by the higher figure and the patrons by the lower.

Q. That would depend on the particular community in which you were? A. Yes.

Q. It might be 500 members and perhaps one hundred or two of patrons, non-members, or perhaps 500 members and four or five thousand non-members? A. Yes, depending on the community.

Q. How are the members' accounts kept, that is to say, in the consumer cooperative, a general store dealing in such commodities as eggs; oats, butter, gloves, shoes, food commodities generally and dry goods? Member A might purchase more in the food line in that cooperative and member B might purchase more in the way of clothing and drygoods. I suppose it is recognized that on some commodities there may be a loss in operation. Is that right? A. Yes.

Q. And on some there may be a gain in operation, or a favourable margin, to avoid controversial words? A. Yes.

Q. Then what the member receives out of the year's operations comes out of the common pot? A. It comes out of the margin.

Q. It comes out of the overall or final margin arrived at as a result of the balancing of losses in the handling of some commodities and gains in the handling of others? A. Yes.

Q. And the member's account is not kept in any way that can determine or reflect what his interest is in the particular product purchased, say butter or eggs?

A. Oh, no. I don't think anyone would know.

Q. It is not possible? A. No. Where a variety of commodities is being handled I don't think you could set up a system of recording such as that.

Q. So that his benefit is dependent on the trading that is done in several varieties of commodities by the organizations? A. Not altogether. When the final settlement comes at the end of the year the usual practice is to have the member of a consumer's cooperative bring in his counter-check as evidence of his purchases and he only gets his patronage dividend on the basis of his purchases, so that if he was not doing business in butter during the course of the year he would not have returns on butter but only on the goods he had bought.

Q. Are the accounts in a consumer cooperative kept in such a way that there is a profit and loss statement in respect of each commodity? A. Perhaps I did not make that quite clear. When you go into a consumer store there is a counter-check book in which the clerk makes an entry in duplicate and the purchaser is handed one while one remains in the book. Isn't that so?

Q. Don't ask me too many questions; I might make a mistake. A. Well, that is the fact. There is an account book. People in retail business are quite familiar with it; it is a counter-check book in duplicate, with a carbon copy and the clerk writes down the purchase and hands one slip to the purchaser.

Q. And that shows the purchase of the commodity? A. Yes, and at the end of the year when the patronage return is made the cooperative invites the members to turn in their copies and the cooperative has a record of their purchases during the year.

Q. The total purchases? A. Yes, and it is on that

basis that the calculation is made.

Q. It is the total purchase of the member that governs, not the purchase of particular commodities?

A. That is right.

Q. It is the dollars? A. Yes.

Q. And the benefit he receives in the way of money is dependent upon the over-all operations in the way of trading in several commodities; that is to say, if there is a loss in eggs and there is a gain in boots and shoes, and the gain in boots and shoes and all other commodities that bring an advantage is much greater than the loss sustained in respect of the commodities that do not pay, the calculation is made on that basis. Generally speaking that is right? A. Generally speaking that is correct, but sometimes patronage returns are only paid on certain commodities.

Q. But that is the general rule that you have given me? A. Pretty well, yes.

BY MR. HAM:

Q. Mr. Savage, on pages 6, 10, 12, 13 and 14, you deal with insurance and in one instance you use the term "mutual insurance societies" and on page 10 "farmers' mutual fire insurance societies." On pages 12, 13 and 14 you develop an argument with respect to the taxation of mutual insurance. What type of mutual insurers has the argument reference to? Where there are a large number of different types of mutual insurers, I wondered whether your argument had reference to any particular kind? A. We are referring to the sixty-seven farm fire mutual insurance companies in this province.

Q. The argument has no reference to cash mutuals, deposit mutuals or reciprocals? A. Yes.

BY MR. FRANCIS:

Q. My learned friend Mr. Parker was asking you as to the reasons why the practice of organizing had changed from the share capital basis to the membership basis. Are you aware that in Ontario a company incorporated under the Companies Act is unable to buy its shares? A. Yes.

Q. And are you aware that in most cooperative Acts in the dominion they have that privilege of buying their shares? A. No.

Q. One of the reasons why this change was made was because of the inability of cooperatives to buy their own shares? A. Yes.

Q. With regard to the question asked by my learned friend Mr. Parker as to the similarity of proxy and delegate voting, you mentioned the literature of the English cooperative movement. No doubt you are aware that in the English and Scottish wholesales, which are based on Rochdale principles, delegate voting is followed? A. Yes.

Q. Do you regard the delegate system of voting as a departure from Rochdale principles? A. Not exactly a departure, no. It is to a degree a departure perhaps.

Q. It is the practical application of Rochdale principles in the federal field? A. Yes.

Q. One question with regard to the hypothetical or alphabetical X-Y case referred to by my learned friend who examined you a few minutes ago. If a cooperative did desire to arrive at plus Z, what would its reason be for so doing? A. Well, I would say its reason would be, in the first place, that it wanted to do business on a safe basis, and secondly it would be because one of the principles of the cooperative movement is that co-

operatives do business at current market prices and in doing business at current market prices they would arrive at a differential.

Q. One more question. A good deal has been said about the different commodities handled by cooperatives on some of which there may be losses, as my learned friend pointed out, while on others there may be surpluses, and in the final settlement with the member these are all treated the same. Is that a fact with some of the larger cooperatives? A. No. As a matter of fact, in dealing with certain commodities in one of the large wholesales, the patronage rebate is paid on specific commodities and not on general business.

Q. It is a commodity dividend? A. Yes.

Q. Are you aware that the laws of some provinces provide for differentials? A. Yes.

Q. In the final result do you arrive at a rough approximation in the distribution? Perhaps you have not got that clear? A. In the case of commodity dividends?

Q. Yes. A. Excuse me for asking you questions, but do you mean an approximation on the whole business?

Q. Yes. A. - No, we don't, not in these particular commodity dividends. The dividend is paid on the business done in that particular commodity.

Q. They vary with respect to different commodities? A. Yes.

MR. VAUGHAN: That applies more to gasoline and commodities of that kind. It does not apply in a general store.

MR. FRANCIS: There is some evidence before the commission with regard to some of the chain stores.

MR. CARSON: But the wholesale is the exception

rather than the rule.

THE WITNESS: I don't know that I agree with that.

MR. CARSON: I thought you said that as a general rule it was the other way.

BY MR. MILLIKEN:

Q. On this very point, in the matter of pooling the profits and losses in the store and paying the patronage dividend on the aggregate, that is a Rochdale principle?

A. As far as consumer business is concerned.

MR. PARKER: The next brief on the list is that of the Insurance Agents Association of Ontario but I understand the parties are not quite prepared to go on with it. I suggest that we take the Ontario Retail Lumber Dealers Association. I understand that Mr. Thorvaldson has certain instructions which he wishes to communicate to the Commission.

MR. THORVALDSON: I have really no responsibility in the matter apart from the fact that I received a letter at my hotel from the Secretary of the organization informing me that both he and the President had to be in Ottawa in connection with some conference yesterday, today and tomorrow, and asking me to see that their brief got before the Commission. I have suggested to my learned friend, Mr. Parker, that it be submitted without being read. It could be disposed of in that way. That is all the responsibility I have in the matter.

MR. PARKER: That would be satisfactory, because in perusing the brief I find that it deals largely with general principles rather than facts. It could be disposed of on that basis.

THE CHAIRMAN: We will take it as read.

ERROL NEPHEW

General Manager
Oxford Farmers Co-operative
Produce Company Limited
having been duly sworn,
testified as follows:

BY MR. FRANCIS:

Q. This is a combination submission on behalf of Farm Supply Purchasing Co-operatives in the province of Ontario. It is a general submission with three individual presentations which are all approved and which will give the entire picture, we hope? A. Yes.

Q. Mr. Nephew, you reside at Woodstock? A. Yes.

Q. You are General Manager of the Oxford Farmers Co-operative Produce Company Limited? A. Yes.

Q. How long have you held that position? A. I have held the general managership for a period of almost three years because when our company started to branch out there was a general managership open and I became General Manager. I was Manager of the Woodstock branch four years and before that Assistant Manager for three years, seven years in all.

Q. With regard to your educational qualifications, you are a graduate of Ontario Agricultural College?
A. Yes.

Q. How many have you on your staff at the present time? A. Between sixty and seventy.

Q. Has the submission which you are about to make been approved by your board? A. Yes.

Q. Are you authorized to make it on behalf of the board? A. Yes.

Q. Will you read the introductory page before reading the submission on behalf of the Oxford Farmers.

A. It reads:

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"Representatives of cooperatives in Ontario, which feature the retail distribution of farm supplies, have agreed in conference to present to the Commission a report on three such organizations, which in certain ways are representative of the development of cooperative purchasing in rural Ontario. As is the case with many groups which started in purchasing farm supplies, departments have been added in two of these to market certain farm products. We wish to present outlines on:

The Oxford Farmers Co-operative Produce Co. Limited
Ilderton-Middlesex Farmers Co-operative
Ayr District Co-operative

"Most of the farm supply cooperatives in Ontario had their origin in the United Farmer Clubs. Some of these grew up into incorporated cooperatives twenty years ago, others are in the process at present.

"The past year has seen the greatest development in this direction. Of forty-four cooperatives incorporated in Ontario in 1944, thirty have featured the distribution of farm supplies.

"A variety of motives has led to these organizations. In some cases the early leadership came from a group who had a strong desire to better their community and saw the distribution of farm supplies as the easiest place to start.

"In some cases local service broke down altogether and was not being replaced. For instance at Grasshill, the chopping mill burned. The previous owner was not prepared to replace it. Rather than haul their grain a greater distance to be ground and then depending on whatever price might be charged by a chain of farm supply stores which encircled the district, the farmers

gave much voluntary time to erect a new mill and set out to operate it cooperatively.

"In the past two years, farm supply groups have been influenced by the prospects of savings from cooperative wholesaling and manufacturing which in some cases have exceeded the savings from retailing. This has been a factor encouraging expansion."

We have tried to make this submission as brief as possible, but there is a great deal of history to be read between the lines, and we shall be glad to give the necessary explanations when the time comes. Continuing.

"In 1916 a farmers' buying club was organized at Woodstock to distribute feeds and some other farm supplies on an off-car basis. Financing was through notes. Retail sales were made as close to the wholesale price as possible without adequate provision for either contingencies or expansion.

"In 1927 the business of the buying club was taken over by the Oxford Farmers Co-operative Produce Co. Ltd., which had been incorporated in 1921, and which established a warehouse and full time service. In 1935 a seed cleaning plant was added, which provided a service on better quality seeds and cooperated with the Woodstock Agricultural Society with its field crop competitions. In 1939 a chopping mill, mixer and roller were added to service farmers on the growing demand for feeds.

"Side by side with the Oxford Farmers, eggs, poultry, baby chicks and under the same management, was developing Woodstock District Farmers' Co-operative Association, which handled feed, seed, general farm supplies. In 1940 this "Woodstock" organization was merged with the "Oxford" organization under the name of the latter, The Oxford

Farmers Co-operative.

"In 1926 a baby chick hatchery was established under this cooperative. It was the first hatchery in Ontario and probably the first in Canada to hatch eggs exclusively from pollorum, blood-tested flocks. Last year 400,000 chicks were hatched. This cooperative sponsored the marketing of eggs on a quality basis, being one of the first in Canada to market eggs on grade. A poultry killing and processing plant was opened in 1941 through which producers were paid on a basis of grade.

"In 1940 the Oxford Farmers added a full sales and repair service on a line of farm machinery.

"Farmers in the Embro district were impressed by the services of Oxford Farmers and asked for a branch in their district. A service was launched there in September 1942. Other districts in Oxford county are asking for branches.

"At the present time producers are able to market co-operatively their eggs, poultry and surplus grain, seeds and hay, and to purchase cooperatively baby chicks, feeds, seeds, general farm supplies, fuel, wire fencing and a limited amount of building supplies, also farm machinery and repairs. Services rendered are poultry processing, egg grading, seed cleaning, chopping mill with complete line of balanced rations, farm machinery repairs and service, and chick hatchery."

MR. FRANCIS: Actually the by-law providing for the increase in capital has been approved of but has not been registered. It is in process of increasing the capitalization.

"The capital of the company is at the present time \$250,000 divided into 25,000 shares of \$10 each. There

are over 650 shareholders. The by-laws state that no shareholder could own more than sixty shares of stock in order to distribute the shares thoroughly. The by-laws also state that each shareholder must be a bona fide producer. Interest is paid on capital stock, not to exceed 7 per cent and the balance of the net earnings are returned in the form of patronage returns to patron-shareholders in proportion to the volume of purchases made by them.

"Savings to the amount of \$174,511 have been returned to farmers on the basis of their patronage, and income tax has been paid each year. The directors of Oxford Farmers believe that much greater savings have been made for farmers of Oxford County by providing a yardstick for prices and pioneering in modern and efficient services.

"Attached are the following exhibits:

Annual Statement 1944

Patronage Returns 1928-1944

Hatchery Premiums

Annual Volume 1928-1944

Taxes 1935-1944

"Farmers in the Embro district realized the value of the services offered and the services rendered, so they asked for a branch in that district. A business was purchased there and similar services rendered to that immediate community. Other districts in Oxford County are asking for branches.

"The value of this type of a Farmers Co-operative cannot be estimated in dollars because:

1. "It is a democratic method of doing business, as producers have a voice in the marketing of their products.

2. "The return of savings or patronage dividends lowers the cost of production, which is vital to farmers.
3. "The value of the farms is increased because of a good market.
4. "The producer is assured of quality of his purchases at a fair margin for handling.
5. "With ultimate assurance of higher farm returns, young people are more satisfied to stay on the farm.
6. "The social standards of the community are much higher when people know they are masters of their own destiny.
7. "The cooperative is a leader in better farm and marketing methods.

"Post-War Programme:

"The company has commenced the construction of a poultry processing and egg cold storage building. This is for the purpose of providing more orderly marketing facilities and higher quality products."

BY MR. PARKER:

Q. Beginning at page one at the introductory part, you state that in the past year there has been great development. You say that of forty-four cooperatives incorporated in Ontario in 1944, thirty have featured the distribution of farm supplies. Were these brand-new institutions set up or did they take the place of other businesses in those localities? A. I am not prepared to answer that.

Q. Do you say you do not know how many of those forty-four were new institutions or how many were taken over as old businesses? A. No.

Q. Have you any knowledge of any one of the forty-four? A. Yes.

Q. How many have you knowledge of -- half a dozen?

A. Yes, I would say half a dozen.

Q. Were any of them purchased from private businesses or taken over? A. A good percentage of them have been.

Q. Speaking generally, why were they taken over by the cooperatives instead of being continued in the form in which they **then** were? A. In some cases a man in the feed business has sufficient capital and does not need to work longer and he is not prepared to give the services that we in the cooperative are prepared to give our customers.

Q. Take one man who wanted to go out of business and retire. What were the circumstances under which he sold out to you? A. He did not sell out to me.

Q. How did they become cooperative? Here is the situation. In the community, wherever it is, there was some man doing business? A. Yes.

Q. In farm supplies; and now it is being done by your company. How was the transition brought about and why?

MR. FRANCIS: Embro is mentioned in the brief. Deal with that.

BY MR. PARKER:

Q. If that is a fair sample. A. It is the Oxford Farmers Co-operative, Embro branch. We purchased that business in 1942.

Q. From a private individual? A. From a partnership.

Q. Why did the partnership sell out? A. One brother was going into the army and the other brother did not feel that he could operate the business in that district.

Q. Why? A. He did not feel that he could carry on without the leadership of the other brother.

Q. Did he approach you? A. Yes, and so did deputations from the district. Groups of farmers said that as they had shares in a cooperative at Woodstock they wanted to put up some money in the business at Embro and operate it and get service. It would save tires and gas for them.

Q. Is that how the other four or five took place?
A. I presume so.

Q. Do you know? A. No.

Q. Speaking of those forty-four, were they incorporated companies doing business, companies that went out of business and whom you succeeded? A. I don't know whether this company was incorporated that we bought out.

Q. The half dozen that you have knowledge of, were any of those incorporated companies? A. I can't say.

Q. On page three of the brief at the top of the page you say: "In 1916 a farmers' buying club was organized at Woodstock to distribute feeds and some other farm supplies on an off-car basis. Financing was through notes." What do you mean -- notes given by whom to whom? A. I will give the history of that.

Q. Make it as short as you can. A. In that district a group of farmers decided to form the Woodstock District Farmers Co-operative Association Limited and then they started on the off-car basis and each of these gave a note for \$100.

Q. Gave a note to whom? A. To the Woodstock District Farmers Co-operative.

Q. By way of loans? A. They gave the note to be used as collateral for borrowing at the bank.

Q. So that the cooperative could be put in funds with

which to purchase the equipment? A. Yes.

Q. And it was purchased with that money by the company? A. Yes.

Q. And then supplies were distributed to the members according to their requirements or sold to the general public? A. Yes.

Q. Including the members? A. Yes.

Q. On a reasonable mark-up over cost? A. No. At that time they worked too closely; they just worked at cost.

Q. And that proved very good. And then in 1927 that club which was not getting on so well was taken over by the Oxford? A. Yes.

Q. How was it taken over? Did the Oxford purchase the assets? A. Not yet.

Q. How did they do it? A. The Oxford said, "You boys come and use our warehouse and we will operate for you on a very narrow margin."

Q. Or commission? A. Yes.

Q. You acted as their supervisor? A. Yes, and gave them service.

Q. You operated this unit and got a reasonable fee on a commission basis for managerial services? A. A very fair fee.

Q. That managerial fee went in to form part of the funds of the Oxford? A. Yes.

Q. And it was mixed with the other funds of the Oxford? A. Yes.

Q. And in due course was used by the Oxford either by way of working capital reserve -- A. Yes.

Q. --or in part paid out to the members of the Oxford? A. That is right.

Q. What we have said concerning that one applies, I suppose, generally to the various branches you have organized in the different fields to which you have extended. Come now to page four, in the middle of the page. You say there are over 650 shareholders and that the by-laws also state that each shareholder must be a bona fide producer?

A. That by-law was changed this year at the annual meeting a few weeks ago.

Q. The meat of the whole thing is that this company has shareholders? A. Yes.

Q. And it has to put up some money to get shares? A. Yes.

Q. A shareholder can own up to sixty shares? A. Yes.

Q. And some of them do? A. Very few.

Q. But a few of them do? A. Yes.

Q. And of the 650 shareholders they hold all the way from one share to sixty. Is that right? A. There is only one holding sixty but there is more than one holding one.

Q. There are shareholders holding all the way from one to sixty? A. Yes.

Q. In addition to these shareholders, are there any members of this cooperative society as distinct from shareholders, or are they one and the same? A. Yes, one and the same.

Q. Every shareholder is a producer? A. Every shareholder is or has been a producer.

Q. If he ceases to be a producer does he still remain a member? A. He still retains that privilege.

Q. So that at the present time you have some shareholders who are not members? A. Yes, retired farmers.

Q. I want this clear. Have you members of the co-operative distinct from shareholders? A. No!

Q. Do you do business with anyone except shareholders? A. Yes.

Q. You do business with the general public? A. Yes.

Q. And again, to avoid terms which are confusing, in carrying on that business the company has a margin of funds in its hands in excess of the cost of gathering the funds together? A. Yes.

Q. What do you do with that margin? A. We set aside so much as reserve.

Q. You pay your necessary costs, salaries, etc.? A. Yes.

Q. And you still have some left? A. Yes.

Q. In your financial statements which you set up regularly you refer to them as profits. Is that right? Look at page eight of the document in front of you. You have an item here, "net profit for year ending October 31, 1944, \$41,169.92." Is that the audited statement or a summary taken from the auditor's statement? A. It is a summary taken from the auditor's statement.

Q. Signed by your auditors? A. Yes.

Q. And that follows the ordinary practice you have been working on for some years, showing net profits at the end of each year or losses as the case may be? A. The net profits are disposed of --

Q. Never mind about the disposition. According to this statement for the year in question you had net profits of the amount of money therein indicated? A. Yes.

Q. Then you have an item "transferred to bonus on members' purchases, \$31,360." What does that mean?

A. That means that after we have taken out or set aside

so much as net profit then the balance is paid, our net profit.

Q. You do not get my question. You have net profits of \$41,000. A. Yes.

Q. I am talking about the \$31,000. A. That is returned to members on purchases made.

Q. Has that been actually paid back to the 650 members? A. Yes.

Q. And in proportion to the amount of business they did during the year in question? A. Yes.

Q. That is right? A. Yes.

Q. The next item is \$5,500. Has that also been paid? A. Yes.

Q. To a different group of members, those who produce eggs? A. Yes.

Q. Is that right? A. They might be the same members.

Q. Some of them? A. Some were the same and some were not.

Q. Then you have an item "transferred to reserve for taxes payable, \$850." What taxes was that set aside for? A. Dominion income tax.

Q. Then you have another item "transferred to dividend account" -- interest on share capital? A. Yes.

Q. And surplus account? A. That is what is left.

Q. A little safety margin? A. Yes.

Q. How did you arrive at the \$850 you set aside for income tax? A. Well --

Q. I want to know what part of your earnings or profits or income, call it whatever you choose, you figure you are paying income tax on. A. On the pool of the business.

Q. On the what? A. On the whole of the business after bonus or members' rebates have been paid.

THE CHAIRMAN: That is, after the transfer of approximately \$36,000 you pay income tax on the rest of the surplus?

THE WITNESS: Yes, after patronage dividends have been looked after.

BY MR. PARKER:

Q. Is that the basis on which you have been paying income tax for some years? A. Yes, since it was organized.

Q. You make returns through what district? A. The London district.

Q. Have you been receiving any instructions as to whether that is satisfactory or otherwise? A. We have never had any that was not satisfactory.

Q. They take your money and you pay your tax?
A. Yes.

BY MR. ELLIOTT:

Q. Does the Oxford Farmers Co-operative pay excess profits tax? A. No.

BY MR. PARKER:

Q. Speaking generally, going back to the last three or four years, what were your profits? Last year they were \$41,000. What was it the year before? A. \$33,000.

Q. And the year before that? A. Twenty-six or twenty-eight.

Q. In other words, they have been growing in the war years? A. Yes.

Q. And the last year before the war, the end of 1939, it would be considerably less? A. Yes.

Q. Away down in the teens or even lower? A. Yes.

Q. Perhaps only breaking even? A. Oh, no.

Q. The point is that you have been making much greater profits in the war years than previously? A. Not on percentage of business.

Q. I am talking about net profits. A. Yes.

BY MR. ARNASON:

Q. Do you distribute any patronage dividends to non-members? A. No, we never have.

Q. What is the percentage of your non-member business approximately? A. I am not prepared to answer that because our business has been coming so fast and we have been reorganizing and have not had dominion leadership or provincial leadership so as to have a uniform policy for co-operatives to follow.

THE CHAIRMAN: Does it exceed 20 per cent?

THE WITNESS: I can't even answer that truthfully.

THE CHAIRMAN: Is that why you are paying taxes, because it does exceed 20 per cent?

THE WITNESS: No, because we are set up in that way and we try to follow the Rochdale principles of the British cooperative way of doing business. That is why it is set up that way.

BY MR. PARKER:

Q. You spoke of dominion leadership. A. Dominion cooperative leadership.

Q. You do not mean government leadership?

A. Well, wherever it might come from if it is cooperative.

Q. That is what I want to know, whether the remark referred to the fact that cooperatives were in the unfortunate position of not having put their house in order. Is that what you suggest? A. I would suggest that there

is no uniform law.

Q. And I suggest it is time the cooperatives put their own house in order. They can read the Income Tax Act. A. We are trying to in our own district.

Q. You are still paying interest at 7 per cent? A. No.

Q. When did you reduce it to six? A. At one time it was seven and I believe in the early days it was as high as eight.

Q. There was some discussion this morning when we talked about paying patronage dividends on different classes of commodities. A. Yes.

Q. Is that what this item has reference to, "transferred to bonus on purchases of members' eggs, \$5,500"? Is that pro rata to the members? A. Yes.

Q. The \$5,500 is paid to those of your shareholders who deal in eggs? A. Yes.

Q. That would be only a portion, not the whole of the members? A. That is right.

Q. There is a statement here with regard to hatchery premiums. What is that? A. Every up-to-date hatcheryman in the province pays his producer a premium in order to induce him to hatch eggs with a higher percentage of hatchability. This in our own case may or may not be members but in some cases they are members and at the end of the year we pay him a premium.

Q. That is an expense to the cooperative in order to get a better quality of product which you in turn can distribute? A. Yes.

Q. On page four you say: "Savings to the amount of \$175,511 have been returned to farmers on the basis of their patronage." That is since when? A. Since 1928,

since we started to pay patronage dividends.

Q. And in the meantime you have retained as working capital, instead of paying back, about how much?

A. Out of that patronage?

Q. In excess of that patronage, out of money which might have been paid to the members but is still held back. A. The money retained has come from almost less than nothing at one time until now, if you look at the reserves, they are around \$50,000.

Q. That is in addition to the share capital? A. Yes.

Q. Over a period your company has made net profits of \$174,000. You have had an even \$200,000 of which \$174,000 has been paid back to members and the other \$25,000 you have still on hand? A. Yes.

Q. Which is to their credit and will some day be paid? A. Yes.

Q. And in ten years the total income tax payments are as set out in the statement? A. Yes.

Q. How many years have you paid income tax? A. Since 1928; it is either 1928 or 1929.

Q. On page ten you have a summary. A. From 1935 to 1944, but I know they started to pay income tax before.

Q. But it was very small? A. Yes.

Q. So that out of \$200,000 net profits you have paid a little over \$6,000 to the dominion in income tax? A. Yes.

Q. On page five you deal with the Embro district. Have I made it clear how you raised the money to make that purchase? A. We took so much out of reserves, the money on hand, and paid about \$5,000 or a little better and carry a mortgage of \$7,500.

Q. At the very bottom of page five you say: "The

company has commenced the construction of a poultry processing and egg cold storage building. This is for the purpose of providing more orderly marketing facilities and higher quality products." It required money to finance that? A. Yes, well over \$100,000.

Q. How do you do that? A. From the people in the community, from our producers.

Q. As to the value of this type of farmer cooperative, you say: "The value of the farms is increased because of a good market". Does your method of operation provide a better market for the farmers? A. Definitely.

Q. You cannot create a market; you have to use the one available to you? A. Our farmers have pioneered these marketing methods and prices are higher in that district than in a good many others.

Q. Is that due solely to the cooperative movement? A. It is due to the cooperative movement and marketing. In 1941 we started a poultry processing plant and we pay our farmers 32 cents a pound for poultry, for milk-fed poultry dressed, while our neighbours to the east of the province received last fall 13 cents for live poultry. There is a difference between live and dressed poultry, but there is a huge difference in the price in that district.

Q. You eliminate all other factors? A. Do we eliminate competition?

Q. No. I am asking if you suggest that the difference in price you mention is due to the cooperative movement. Is it due to the fact that the movement has been operating, or might it be explained by a great many other factors? A. Yes.

Q. You say: "The producer is assured of quality of

his purchases at a fair margin for handling." Margin to whom? A. A margin to the cooperative, and the consumer is not overpaying for the article which he is purchasing.

Q. You have a method of doing business which makes a fair margin for the cooperative? A. Definitely, for both parties concerned.

BY MR. FRANCIS:

Q. On page five you say: "With ultimate assurance of higher farm returns, young people are more satisfied to stay on the farm." Do you know that from personal observation? A. I have discussed this question with two young men in our board of directors and we took up that very point. These two young men are attached to the farm. I said, "Can you prove that statement?" They said, "Certainly, we can prove it by ourselves. We are willing to stay on the farm because of the satisfactory markets and the satisfactory living conditions prevailing in this community." These men are Mr. Ken Hill and Mr. Charles Munro. They said they were more willing to stay on their farms for these reasons.

Q. From your personal observations do you think they are saying what is correct? A. Yes.

MR. PARKER: I do not think that kind of evidence is very helpful.

BY MR. ELLIOTT:

Q. When you wished to finance the construction of a poultry processing plant did you decide to sell more shares rather than finance by some other method, for example by loan units? A. Yes.

Q. What considerations led you to increase the share capital rather than adopt some other method? A. We have

been operating on that method. It looks to us as though the cooperative trend is changing somewhat and we thought it would be well to carry on on the share basis until we see something that is proven to be better, and on that basis we felt we were doing business for probably a great many more members. In other words, we want to take in, not every producer in the community, but a good many or most of the producers in the community, to give them an opportunity to market through our organization.

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The Commission adjourned until 2.15 p.m.

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The Commission resumed at 2.15 p. m..

CLARENCE CHARLTON,

Ilderton-Middlesex,
Farmers Co-operative,
having been duly sworn
testified as follows:

BY MR. FRANCIS:

Q. Mr. Charlton, I understand that you are the General Manager of this Association? A. Yes.

Q. How long have you been General Manager?

A. Twenty-four years.

Q. How many employees have you? A. About 18 regular employees.

Q. Has this brief been approved by your Board of Directors? A. Yes.

Q. Will you proceed with the reading of it.

A. Mr. Chairman and gentlemen of the Commission, this brief which I am presenting is the story of a farm supply cooperative which is situated in a small village in a mixed farming district. It is also the story of a cooperative that commenced operations under a charter with share capital and has since been incorporated with non-share capital.

The brief reads:

"Ilderton Farmers' Co-operative Company Limited - 1920
to
Ilderton-Middlesex Farmers' Co-operative - 1944.

"In the year 1919, farmers of the Ilderton district, who had been doing some carlot business as a United Farmers Club, began to see the need of a better organization to distribute farm supplies.

"A charter was obtained under part 12 of the Companies Act, and the Ilderton Farmers Co-operative Company Limited was formed with a capitalization of \$25,000 divided into

shares of \$20 each. Two hundred and sixty farmers became shareholders, and eventually \$20,000 was subscribed.

"A board of six directors was chosen, who immediately purchased the old grain elevator then doing business in the village. Before date of taking over, it was destroyed by fire. They then built an elevator, which at the time, was one of the most modern and best equipped in the province.

"A manager was hired and business commenced in December, 1920. Two months later, the lumber, coal and builder supply business which adjoined the grain elevator was offered for sale and was purchased by the cooperative.

"This proved a good move for the cooperative, as since that date, there has never been a slack period in the co-operative operations, and they were able to operate the enlarged business with very little increase in staff.

"The old lumber and coal sheds being worn out, were in a few years replaced with a modern shed and also overhead storage for coal.

"During the succeeding years, new services were asked for by the shareholders. The first was machinery to clean small seeds and still later, a Government cleaning plant for seed grain, with suitable storage was added. A new office, garage for trucks, large truck and stock scales, and cement floored stock yards were secured through the years.

"In 1939, since white beans were becoming an important crop in the district, and the nearest market was thirty miles away, a large elevator and warehouse completely equipped for the handling of white beans, was built.

"The principal lines retailed for our members, are:

Grain, feed, seed, lumber, coal, fertilizer, builders supplies, wire.

"The principal lines marketed for our members are: Wheat, white beans, soy beans, seed grain, clover seed and hogs.

"Interest on capital stock, varying from 5 per cent to 7 per cent has been paid each year, but up until 1928 any additional surplus was put back in the business, and used to build up our property and equipment, it being the policy of the cooperative to make some improvement, large or small, each year.

"In 1929 patronage returns were declared for the first time, to our shareholders, and this continued up until 1940, when our non-member business began to be in excess of that done with shareholders. Patronage returns at a lower rate have been paid to some 1,100 patrons who were not shareholders."

In the year 1944 there were 1,100. Continuing:

"In 1944, as our original organization had become outdated, and in need of overhauling to make it more truly cooperative, at our last annual meeting, the shareholders voted to reorganize on a membership basis, under the name of Ilderton-Middlesex Farmers Co-operative. The new cooperative was launched with the same Board of Directors, Management and employees.

"Income taxes have been paid on our net earnings each year.

"The cooperative in this community has the goodwill of all business men of this village, and also of competitors in adjoining towns. It is looked upon as a leader in this community. Retail prices are a standard for the district.

"A sum equal to 5 per cent of net earnings is set aside each year as an educational fund. In most years, the money used for community enterprises, such as Red Cross, The Agricultural Society, Junior Farmers, Boys and Girls Clubs, Public Library, Skating Rink, etc., exceeds that by several hundreds of dollars.

"The cooperative business in this area has grown from a turnover of \$60,000 in the first year's business, to over \$1,000,000 in 1944. The cost of doing business is approximately 7-1/2 per cent.

"As a post-war project, Ilderton-Middlesex is planning a cold storage and locker service, and will move into the poultry and egg business, which has not been taken care of in this section, as the nearest market is twelve miles distant.

"This community is considered one of the best organized in the province, and is a direct result of farmers working together in a cooperative way for the past twenty-five years.

"The following exhibits are appended:

Financial Statement 1944.

Annual Volume 1920 - 1944.

Patronage Returns 1929 - 1944.

Taxes 1920 - 1944."

.....

BY MR. FRANCIS:

Q. In 1939, I understand, you decided to pay patronage dividends to non-members? A. Yes.

Q. Why did you do that? A. We had not made any attempt, or little attempt, to sell shares and the non-member business continued to grow so that it began to be in excess of the membership business, and consequently

the returns that our members were getting each year began to look a little lopsided. They were getting stuff at a lower price than many good customers who were not shareholders and this was brought up at the annual meeting and it was agreed to pay patronage returns to every customer who lived up to certain rules which the Company made, but at a lower rate than the shareholders.

Q. That decision was made by people who had been benefiting by higher returns? A. Yes.

Q. The control was still in the hands of the shareholders? A. Yes.

Q. And that decision was made by them? A. Yes.

Q. And not by the patrons outside? A. No.

BY MR. PARKER:

Q. You have been paying income taxes? A. That is right.

Q. On what? A. On our net surplus each year, the taxable amount.

Q. How do you arrive at the net surplus? A. An amount which was equal to 20 per cent of our profits in most cases was set aside as net surplus.

Q. The point is that before arriving at the surplus on which you paid income tax you deducted the amount paid back to the members? A. Yes.

Q. That is shown in your statements? A. Yes.

Q. Your net profit is \$44,196.61 and you paid out \$20,596.42. A. Yes.

Q. Is that the basis on which you have been making returns to the Income Tax Department for some years? A. Yes.

Q. And you have paid accordingly on that basis?

A. Yes.

Q. Were you here when we were talking to the gentleman who proceeded you representing the Oxford company? A. Yes.

Q. Did you follow the discussion and did you gather that he did not make his up on that basis? A. Not particularly.

Q. There is something I want to call your attention to. Your operating expenses are shown on pages 19 and 20. You have maintenance and repairs amounting to \$3,435.54? A. Yes.

Q. For the year 1944. That seems a good deal for maintenance and repairs. Is that paid out of profits or charged up to capital? A. We have a large amount of machinery and a lot of trucks.

Q. It was charged out of earnings for that year? A. Yes.

Q. Before arriving at profits? A. Yes.

Q. Can you give me the approximate figures for the two or three years preceding 1944 as compared with this statement? A. Yes.

Q. Will you give me the corresponding figures. A. For 1943?

Q. Yes. What were the net profits that year? A. Our net profits were \$4,115.71.

Q. About the same as 1944? A. Yes.

Q. And the year preceding that? A. For 1942 it was \$2,791.19, and for 1941, \$2,656.19.

Q. Give me a couple more. A. For 1940 it was \$4,625.46 and for 1939, \$3,766.77.

Q. So that there is not a very great variation between the last pre-war year and the present time? A. Our volume has increased a lot, of course.

Q. But your net results are not much different?

A. No, very little.

Q. Notwithstanding that that is so, we find that although your net profits remained nearly stationary, in 1939 you only paid out in patronage returns \$3,837.04 whereas in 1944 it was \$20,596? A. Yes.

Q. And in 1943, \$16,000 odd? A. Yes.

Q. And in 1942, \$15,000 odd? A. Yes.

Q. And in 1941 nothing? A. Yes.

Q. And in 1940 only \$6,000 and in 1939 \$3,800 odd?
A. Yes.

Q. So that taking the growth of the business through the war years, your profits if you had calculated them before making returns to patrons would have grown rapidly?

A. If you consider them profits.

Q. Those returns are divided among the patrons of whom you have a large number apart from members? A. Yes.

Q. How do you decide how much each shall get?

A. We keep track of every customer's business and at the end of the year they are totalled up and we know how many dollars' worth of shareholders' purchases we have.

Q. You keep counter-checks? A. We keep ledger accounts.

Q. Does every person who buys goods know? How do you keep all those details? A. One girl does it all.

Q. And it is worked out according to the amount of business they have done? A. Yes.

Q. Do you keep a separate account for each patron?

A. Yes, a separate account for every customer unless it might be a stranger coming in and making a small purchase.

Q. And that is merged in the general thing? A. Yes.

Q. What percentage of profits do you pay to the patrons and what percentage to the members? A. In 1944 -- our year ended in May -- our patronage dividend was 5 per cent to the shareholders and 3 per cent to the non-shareholders.

Q. Why did you pay that to the non-shareholders? You are under no obligation to pay them? A. We began that five years ago. I might explain it this way. A large number of shareholders had only a \$20 share. Many non-shareholders were buying three or four times as much as members and we felt it was not fair to good customers.

Q. So you made them a Christmas present, so to speak? A. We reorganized our business.

Q. And since then it has been the practice to make this present of 3 per cent? A. Yes.

Q. It might have been a good idea to present that 3 per cent to the exchequer instead of to these people. You might have given it to Mr. Ilesley. Do you agree with that?

MR. FRANCIS: That is not a fair question.

THE CHAIRMAN: It does not require an answer.

BY MR. PARKER:

Q. Do you buy at a fixed price or on a consignment basis? A. At a fixed price.

Q. So that the amount you pay him at the end of the year is not paid him under any obligation but only as a matter of discretion on the part of the management? A. Yes.

Q. There is no agreement of any kind between the co-operative and the patrons. It is not on a consignment basis? A. No.

Q. The same applies to any goods you handle for patrons? A. Yes.

Q. There is no obligation to pay more than the amount specified? A. No.

BY MR. ARNASON:

Q. You say that your organization has been reorganized on a membership fee basis? A. Yes.

Q. What is your annual membership fee, or are you operating on an annual membership fee? A. A life membership of \$10.

Q. Do you make provision for loan units in addition to that? A. We have not done that.

Q. In view of this reorganization, do you expect that that will facilitate membership on the part of non-member patrons? A. Oh yes, it will.

Q. How long is it since that reorganization took place? A. It was official on November 6.

BY MR. ELLIOTT:

Q. How are the interests of the former shareholders taken care of in the new arrangement? A. There is a 20-year debenture bearing 5 per cent interest in payment of stock.

Q. That debenture was the face value of the stock? A. No, it was at double the value of the stock.

Q. Was that about the face value of the stock plus surplus? A. It was slightly less.

Q. Less than the book value of the stock? A. Yes.

BY MR. PARKER:

Q. I notice in your list of income tax payments from 1924 to 1944 they range from \$60 in the former year up to \$1,355 in the latter; but in the year 1937 there seemed to be a big jump from the year 1936, because in 1936 it was only \$277 whereas in 1937 it was \$1,322 and in 1938 it was down to \$838. A. It was generally recognized that 1937

was an exceptional year for trading. Prices and crops were good that year.

EMANUEL STANFFER,

President,
Ayr District Co-operative,
having been duly sworn
testified as follows:

BY MR. FRANCIS:

Q. You are President of the Ayr District Co-operative?

A. Yes.

Q. And the brief that you are about to submit was prepared by yourself and the Manager and one or two others and later approved by the Board? A. Yes.

Q. You were authorized to present the brief to the Commission on behalf of the Board? A. Yes.

Q. Will you proceed? A. The brief is as follows:

"The inauguration of the Ayr District Co-operative was the result of the efforts of five study groups and one buying club. The study groups know the value the organization would be to the individual farmer, and the buying club realized the necessity of a different structure to be in a position to adequately supply the needs of its members.

"The cooperative organized in March 1934, and purchased an operating mill. The mill is equipped with excellent facilities for grain storage and with machinery to render complete feed service to this community. It also retails coal, wire fencing, seed and some building supplies. The only product it markets for its members at the present time is turnips. The retailing of more lines, particularly hardware and machinery for the farmer and the distribution of more of their products is urgently

needed and will be taken care of as quickly as expansion is possible.

"The purposes of the Company are as follows:

"Cooperatively:

"To manufacture, buy, sell and generally deal in goods, wares and merchandise:

"To associate with other cooperative associations for the purpose of mutual aid:

"To advance the cooperative movement as a system of business having Service as its motive.

"To serve the economic and cultural welfare of the members and the public, and

"To do all such other things as are incidental or conducive to the attainment of the above objects.

"The Company is incorporated by Letters Patent as a cooperative corporation under Part XII of the Companies Act without share capital. Membership is open to all, subject to approval of directors, who are in agreement with the aims and purposes of this cooperative.

"The capital shall be secured as follows:-

"Each applicant for membership shall pay a cash life membership fee of \$10. Each applicant for membership in addition to his subscription of \$10 subscribes for, at least, one loan unit of \$40 for the purpose of assisting in financing of business operations of the association. Loan units may be paid in either of the following ways:

A. By cash

B. By note dated not more than four months from the date of organization

"There is paid on complete loan units a rate of interest not exceeding 4 per cent per annum.

"The by-laws state that the net savings for any one year be distributed as follows:

"Interest at a rate not exceeding 4 per cent on all completed loan units.

"A reserve fund of 20 per cent of net savings.

"An educational fund of 5 per cent of net savings.

"Balance to be distributed or allocated as Patronage Returns.

"Attached is financial statement for 1944. In the first year (1943) the cooperative showed a loss of \$1,549. It is becoming better established this year and shows a net earning of \$898."

Documents filed with brief:

Balance Sheet -- December 30, 1944 -
for Ayr District Co-operative

Profit and Loss Statement -- January 1, 1944,
to December 31, 1944 -- for Ayr District
Co-operative.

.....

BY MR. FRANCIS:

Q. In the second paragraph of the brief there is a correction. You read 1943. A. It is a misprint.

Q. The only commodity you handle from the producer is turnips? A. Yes.

Q. Do you buy them at a fixed price? A. Yes, the market price.

Q. If you make a little gain on the sale, that goes into the exchequer of the Company and is disposed of as you outline? A. Yes.

Q. This is a rather unusual case. It is a new association that arose from certain study groups. Will you explain that. A. I almost feel like apologizing for such

a small business as this when it is compared with the others referred to, but we live in a community that is pretty well established. It is one of the good ones in Ontario, and out of study-group experience, drawing together through the radio and learning farm technique and so on, these five groups were brought together as study groups to study agricultural economics, political democracy or whatever else is involved in all these community needs. Out of that the urge came for democratic action in a practical way, and these five radio forums and study groups, joining together with the small buying club, turned towards the present project in the village of Ayr, and the men who had owned this, finding that we were heading in the line of service for ourselves, offered to sell to us his business and his stock. This is the outcome. You asked me to explain. This movement was started and could not be stopped. It was going some place. It is a democratic urge.

Q. You are a farmer? A. Yes.

Q. You are not a paid employee of the Association?

A. Decidedly not.

Q. I understand you have your Manager here if there are any questions to be asked? A. Yes.

Q. Can you say from your own observations whether or not in that community the credit situation has been changed in any way owing to the influence of the cooperative?

A. Yes. I live in a community where in general the farmers have money or credit if they want to use it. We are in a community where the evil had grown up of people being given credit because they were good for it, and people were accustomed to receiving credit whether they needed it or not. We got into difficulties in one or two cases and some members wanted to withdraw from the cooperative because

we demanded cash; but now we are getting to the point where, regardless of consequences, we demand cash from the members and they are beginning to understand the importance of that principle and are appreciating it more and more.

Q. Do you regard that as a Rochdale principle?

A. Absolutely.

Q. And that is why you adhere to it? A. Yes.

Q. And are you on a membership or a share basis?

A. Yes.

Q. Are you affiliated with the Farmer's Co-operative?

A. Yes.

BY MR. ELLIOTT:

Q. What reasons led the groups to finance by loan units and membership fee rather than by share capital?

A. Some practical people thought this was probably the better way to do it.

Q. Who said that this was the better way to do it?

A. These people had made a study of the whole thing. They were largely uneducated people but they had horse sense and that led them to adopt this method.

Q. What is your own understanding of the difference between loan unit and share capital? A. The loan unit is really the only fundamentally proper way of carrying on a cooperative. I can't tell you very clearly what I have in my mind, but we heard such a lot about watered stock and all the evils of the system in the past that we wanted to get far away from it, so far that we did not even want to use the terms they use.

J. E. PROCTOR,

Chairman of Joint
Committee of Ontario
Insurance Agents Association
and Toronto Insurance Conference,
having been duly sworn
testified as follows:

BY MR. PARKER:

Q. Are you appearing in the capacity of Counsel for the Association? A. I should like to read the brief on behalf of the Insurance Agents Association. Mr. Wilson McLean is engaged cross-examining witnesses in another court and is obliged to be absent.

Q. I do not want to take advantage of Mr. McLean. Are you prepared to go ahead yourself? A. I think so.

Q. I understood this morning that he would be available this afternoon. A. I thought so too, but he could not get relief from the Judge before whom he is appearing.

MR. PARKER: Perhaps you had better read the brief and if he is here tomorrow and wants to say a word about it he can.

MR. PROCTOR: That is agreeable to me. I might make a statement as to how this was prepared. The question of dealing with the submission to your Commission was considered by the Ontario Insurance Agents, and the local association in Toronto called the Toronto Insurance Conference and the general members involved as to the attitude to be taken towards the subject. It was fully discussed at meetings in the Ontario Agents Association, comprising a large number of local associations of which the Ontario Association is the parent. They circularized all their local associations and had practically unanimous

support for the principles that we outline in this brief. The brief itself has not in its final form been submitted for approval to all the different associations. It would take too long to do that, but the principle was adopted and approved.

The brief reads as follows:

"Submission to The Royal Commission enquiring into Application
of Income and Profits Tax Measures to Cooperatives
and Mutuals

"The submissions herein are made on behalf of the Ontario Insurance Agents Association and the Toronto Insurance Conference. The membership of these organizations is approximately 1,000 other than life insurance agents throughout the province of Ontario, including the city of Toronto. These agents employ a large number of persons as sub-agents, solicitors, clerks, stenographers, etc.

"The said organizations submit:

"1. That, as taxpayers, the present exemption from taxation enjoyed by cooperative organizations and mutual and reciprocal insurers (other than life), particularly in view of the present very heavy income and excess profits taxes (much of which will undoubtedly continue in the post-war period) is a negation of the equality of taxation, which should be the basis of any tax structure. Such an exemption tends to increase the burden upon all others liable to tax.

"That insurance agents regard as unjust the exemption from taxation enjoyed by the above class as having the effect of penalizing those who conduct business where capital is invested therein and who are subject to taxation on earnings thereof. The agents, as taxpayers, object to any such exemption from taxation.

"2. That the present advantage enjoyed by organizations operating on the cooperative, mutual and reciprocal basis, under the tax laws of Canada cannot help but cause concern.

"3. That if the taxation of moneys transferred to reserves for the benefit of present and future policyholders of insurers (other than life) is proper and justified in principle, there should be no exemption given where similar moneys are transferred by organizations who carry on their operations on the mutual or reciprocal plan.

"4. That, as taxpayers, until Parliament, after full consideration of all the implications and upon a clear mandate from the electorate to do so, decides that co-operative ownership of business, whether it be either trading or insurance, is to be encouraged as the economic policy of Canada, the direct or indirect fostering of such a policy by tax exemption should be abolished.

"In support of the foregoing submissions, it is significant to note that in Great Britain organizations operating on the cooperative basis do not enjoy the preferential position that such similar organizations in Canada enjoy. This matter was fully investigated by the appropriate authorities in Great Britain and following their report they were made subject to taxation in respect to all profit other than that distributed.

"With respect to the situation in our neighbour, the United States of America, the tax exemption position of the mutual and reciprocal insurers has been examined and modified by the imposition of taxes upon them.

"Dated at Toronto, Ontario, the 5th day of February, 1945.

"All of which is respectfully submitted."

BY MR. FRANCIS:

Q. Will you explain exactly what has been done in the United States with respect to this matter?

A. It is a very complex question, but to answer it simply I can say that in 1942 there was a tax imposed which the reciprocal and mutual insurers previously had not had imposed on them.

Q. In 1942? A. Yes. I can give all the information in detail but it would take a couple of days.

BY MR. GRAY:

Q. Perhaps you are aware that I represent factory mutual fire insurance companies? A. Yes.

Q. And you know that these companies are principally engaged in the insurance of factory risks? A. Yes.

Q. And you yourself and your firm are engaged in the insurance of similar risks with joint stock companies?

A. That is so.

Q. So that there is no doubt you are quite familiar personally with the manner in which this business is done both by joint stock companies and the factory mutuals?

A. I think I am.

Q. You know also, I suppose, that the factory mutuals do not employ commission paid agents and that the joint stock companies do, and do you agree that as a result of that difference in system you are personally in competition with these factory mutual companies for business in this class of risk? A. We are in competition, yes.

Q. Will you please consider that the questions I ask concern only that type of business? A. Yes.

Q. I want to ask whether these submissions in your brief are intended to apply to factory mutual insurers.

A. Yes, all mutual insurance and reciprocals.

Q. Does your brief mean to say that there is at present an inequitable discrimination in the burden of taxation as between joint stock companies and the factory mutuals? A. I believe there is.

Q. Tell me what that discrimination is of which you complain? A. Do you want it in detail?

Q. Whatever your brief intends to refer to. I want you to make that plain. A. The factory mutuals, as I understand, are not subject to excess profits taxes or income tax in Canada. Is that correct?

Q. That is what you intend to say here? A. Yes.

Q. Do you think or do you know or do you say that the factory mutuals have any income which, if this Act were applied to them, would be subject to taxation or would produce any tax, if the same rules were applied today to them which are applied to joint stock companies?

A. Yes. I think they have, in the accumulations they make beyond what they return.

Q. Just make that a little plainer to me. A. The point is that they have a deposit premium which in your group is fairly high and as a result of operations they show less expense cost. Then they declare against the deposit a certain rate of dividend to be returned to the policyholder.

Q. Let me give this information to the Commission: that these mutuals operate on a premium deposit plan, that their deposit cash premium is about ten times the annual cost of the insurance intended to be carried, and that their return or credit to their members on a one-year policy is on the average 90 per cent of the deposit premium. Do you

recognize those figures? A. Yes. I believe in some cases they have been lower than that.

Q. Tell me exactly on what it is that you think income tax should be imposed or to what fund it should be applied. A. This would not be an opinion of the Agents Association since they have not been consulted on it, but my own personal opinion would be that they should be taxed on what they do not distribute.

Q. That is, the carry-over from the year's operations which is not returned or credited to the policyholder. Is that what you mean? A. Yes, it is, if made up of underwriting profit as shown in the business, plus investment earnings not distributed back to the policyholder.

Q. You do not suggest that 90 per cent of the deposit premium returned to the member should be subject to taxation? A. I would like to, but I don't think it would ever be done.

Q. You might go one step further and say it would not be fair or practical? A. I would not like to say that.

Q. Then we will leave it as it is. It is the carry-over from year to year which ought to be subject to taxation? Have you any idea of the amount of taxes it would produce? A. I have not. The rate of taxation would depend largely on what it was applied to and I have not the figures before me as to what would be accumulated which I would consider taxable. The amount of tax would depend on the rate that the Government would impose.

Q. You suggest it should be the same rate for mutuals and stock companies? A. I don't think there should be any discrimination.

Q. If I suggested, as I do, that the carry-over is insignificant in amount and that the tax to be received from such an impost would be inequitable in amount, what would you say? A. I would say that there was still discrimination and that all businesses, no matter in what manner they conduct themselves, should be subject to the same tax whether small or large. The question of judgment as to what is significant and what is not might differ in different areas and different times.

Q. But for the moment may we take it, so far as this brief is concerned, that your suggestion is limited to this, that you think the tax should be assessed on any carry-over at the end of the year's operations which is not returned or credited to the policyholder members?

A. I believe there is a difference in regard to certain types. The point is this. The credited portion of the distribution is not what we mean to be free of tax; it is the amount paid in cash. But I think that according to the method operated by the union mutuals they do not return it but simply make good the deposit, as I understand.

Q. No doubt you intend the principle of equality of taxation to apply to these companies in all branches of taxation as well as income, do you not? A. As well as income?

Q. Yes. Let me put the question more plainly. You are aware, I am sure, that under the Special War Revenue Act of Canada a tax of 2 per cent on premiums of joint stock companies is imposed, and by the same Act a tax of 4 per cent on premiums of factory mutuals, fire insurance companies. That is so, is it not? A. I believe it is.

Q. Does your brief intend to support the plea of the factory mutuals that this discrimination be removed and

that the rate of taxation be the same? A. I don't think that is the intention. It is the intention in a general sense to equalize the position of the two types of operation. That might result in what you suggest, but I would not say it would be dealt with specifically. You ask me that question and I would say no, unless the whole question was dealt with.

Q. You say that the whole business of taxation of these insurers should be put on an even basis, including premium tax as well as income tax? A. Our brief is very clear. It asks for equality, that is among all, not only in insurance but in all classes of business, so far as taxation is concerned.

Q. Here is the Statute.

MR. PARKER: I doubt if this is relevant to the inquiry with respect to the question we are dealing with.

THE CHAIRMAN: I hardly think so, Mr. Gray.

MR. GRAY: I think the witness has made it so.

THE CHAIRMAN: You might as well complete the statement you were going to make.

BY MR. GRAY:

Q. I am referring you to the Statutes of Canada, 1942-43, George VI, Chapter 32, which is the Statute imposing a rate of 4 per cent on deposit premiums of mutuals and 2 per cent on stock companies. The definition of "net premiums" in the case of deposit mutuals contains this proviso: "Provided that in the case of a mutual company which carries on business on the premium deposit plan and in the case of an exchange 'net premiums' means the actual net cost of the insurance to the insured during the taxation period together with interest on the excess of the premium deposit over such net cost at the average

rate earned by the company on its funds during the said period." Now, Mr. Proctor, would you agree that this definition of net premiums for taxation purposes is a form of income tax on the investment income of these factory insurers? A. If I am going to be faced with questions of that kind dealing with the law I must request another hearing with Counsel present.

THE CHAIRMAN: That is a matter of law and the witness has rightly declined to answer it.

MR. GRAY: May I say to the Commission, with all respect, that my submission is and will be later that this tax, although it is called a premium tax under the Statute in question, the special War Revenue Act, is as much an income tax as anything imposed by the Income War Tax Act and is a tax on investment income of these companies not borne by any other type of insurer, and therefore it is relevant to the inquiry. However, I leave it at that if the Commission pleases. I have one other question to ask the witness. Mr. Proctor, you speak of penalizing those who conduct business wherein capital is invested. To whom do you refer in this second paragraph of your brief?

THE WITNESS: The second paragraph?

MR. GRAY: It is at the bottom of page one.

THE CHAIRMAN: The second paragraph of Section 1.

MR. GRAY: Yes. To whom is it that this reference is made?

THE WITNESS: I think that the view of the agents behind that is that all classes of business operated under the capitalistic system are there referred to.

BY MR. GRAY:

Q. I wanted to know whether you thought it was the agents who were penalized, or the stockholders, by this alleged exemption. A. As a matter of fact, the agents approached this subject from the point of view of the best interests of the country, and while they are a part of the country their view was that it would be best for all those engaged in business. There was no question of their considering themselves personally penalized at all.

Q. I wanted to get that point cleared up. May I take it from your statement that you do not allege that the agents as such bear any burden of discrimination or penalty in consequence of the conditions alleged in your brief?

A. No, I would not say that.

Q. I would be glad if you would tell me how the agent is affected? A. I am speaking of those agents who represent companies operated under the capitalist system, and the effect on them is that the discriminated position of those who are not taxed, the cost of coverage as reflected by that freedom from taxation, puts the agents representing such companies at a competitive disadvantage.

Q. That is the point. You bring out two points, one of which is this. You take into account, for your agents, the cost of insurance. Do you suggest that the income tax and the excess profits tax imposed on joint stock insurers affect the cost of insurance to the policyholder?

A. I do.

Q. Would you mind demonstrating how that is so?

A. If you ask me that question, again I say I would like to have Counsel deal with it.

Q. Do you not think it is rather important?

A. I think it is.

Q. And you are not at the moment able to say that income and excess profits taxes in Canada have resulted in any increase of cost, that is the premium rate, to the policyholder? A. Isn't that a question for the companies to answer?

Q. I do not know. I was only taking your view of it. Of course, they will be asked that in due course.

A. I don't think I should make a statement because I have not the statistical information.

Q. You indicated that the agent was prejudiced because costs were increased, and that was the reason for my question. A. I did not say costs were increased, sir.

Q. Thank you, I misunderstood you. Would you say they have not been increased? A. I spoke of the competitive advantage of those that are not taxed as against those that are taxed and I said that the agent finds it creates a position that is unfavourable to him because he is representing companies operating on a joint stock basis.

Q. One more question. You suggest that there is some discrimination in relation to factory mutual insurers. In what way would the application of income tax to the factory mutual insurers differ from the application of the same tax to a stock company which on its operations made no profit, that is to say, broke even? What difference would there be in those two cases? A. I would like to consider that before answering.

Q. After all, that is the question, is it not? A. I don't think so.

Q. The discrimination, surely, is not between those who earn profit and pay the tax on it and those who do not; the discrimination would be only as between the joint stock companies and the mutual insurers if neither earned profit.

Isn't that right? A. If neither had a profit and neither paid taxes?

Q. What is the difference? A. There would be no difference.

Q. If a factory mutual is operating on a break-even policy what is the discrimination complained of?

A. I don't believe they do.

Q. Have you any evidence? A. Where do they get their surplus?

Q. That is no doubt a matter on which they will give testimony, but what evidence have you? A. Their surpluses are not created out of the air.

Q. Have you anything to offer in that connection? A. No.

Q. In your brief you say: "In support of the foregoing submissions, it is significant to note that in Great Britain organizations operating on the cooperative basis do not enjoy the preferential position that such similar organizations in Canada enjoy. This matter was fully investigated by the appropriate authorities in Great Britain and following their report they were made subject to taxation in respect to all profit other than that distributed." Can you tell me please, whether if we applied in Canada the provisions with respect to taxation of mutual insurers now in force, to which you refer, what would be the difference in the tax collected in Canada from mutual insurance companies. A. I could not answer that question without studying the rate. We have mentioned the question of cooperatives. We made no reference to mutual insurers and you are endeavouring to read into the brief something that is not there.

Q. I am glad to hear that. Then this is not intended

to apply to mutual insurers such as factory mutuals?

A. It has reference to the whole idea of the cooperative principle. If you think it should, it suits me.

Q. You would not be able to say what the tax in Great Britain on companies like factory mutuals would produce?

A. I understand there are no such organizations in Great Britain.

Q. But you wanted to bring the British system into Canada? A. The principle.

Q. I wanted you to tell the Chairman whether it would make any practical change in the results in Canada.

A. We do not recommend that the principle as it was adopted in England should be fully employed in Canada. We say it was significant that they did this. It was really a reference to the fact that in England they had dealt with the subject of cooperatives.

BY MR. MILLIKEN:

Q. In paragraph 1 you exempt life insurance companies. If a cooperative should form a life insurance company you would have no objection to its being exempt from income tax?, A. The Ontario Fire Agents Association and the

Crown Insurance Conference are not identified as life insurance agents and we did not want to leave the implication that we were referring in any way to life insurance.

.....

MR. FRANCIS: The general brief is on behalf of the producer and marketing cooperatives, and here again we present a very short brief supported by men who are qualified to speak, to show the application of general principles in certain areas, giving a cross-section of the province. The brief is very short.

L. S. INKSTER,

Producer and Marketing
Cooperatives,
having been duly sworn
testified as follows:

BY MR. FRANCIS:

Q. Mr. Inkster, I understand that you had some part in the drafting and preparation of this brief? A. That is true.

Q. You were on the drafting committee and the co-ordinating committee? A. That is true.

Q. And you are Secretary-Treasurer of Ontario Honey Producers Co-operative Limited? A. That is right.

Q. And have been Secretary-Treasurer for fifteen years? A. Yes.

Q. You have been engaged in the cooperative effort for about twenty years? A. Yes.

Q. Has your Board met and authorized you to submit any information that might help the Commission? A. That is correct.

Q. Will you proceed with the reading of the brief, and then there are a few questions I wish to ask with regard to the honey cooperative which will show how this operates. A. This is the brief:

"Producer Marketing Co-operative Organizations

"Organization:

"Producer Marketing Co-operative Organizations, with but few exceptions, came into being because of the necessity of the producer to procure orderly marketing of his products at a proper price, which would compensate him for his industry. Prior to the formation of such organizations, the producer had to sell his product on the available market,

at the best price obtainable, so as to procure the necessary funds to enable him to live and carry on his operations.

"These producers, engaged in the various spheres of production, found that at the time when their product came on the market, there was generally a surplus of their particular product and that prices were low and they obtained the low price. As a result of this, it was natural for these producers to come together in groups, and try to work out some method whereby they would obtain a cash advance on their product, but at the same time be enabled to market it at better prices.

"As a result, Co-operative Marketing Organizations were formed, which enabled the producer to receive cash for his product to enable him to live and carry on his particular sphere of production and also enable him to have his product marketed at the best time when prices were satisfactory.

"The Producer Marketing Co-operative Organizations have a two-fold object -- first, to enable the producer to market his product in a satisfactory manner and at the same time to give to the producer necessary money to carry on; and second, to regulate and improve production in the various branches of production.

"The great majority of the cooperative organizations have been set up under laws of either the Dominion or the provinces and various legislative bodies have aided and encouraged the cooperative movement by enacting suitable legislation, and by setting up departments to assist in their proper administration.

"These cooperatives are democratic in principle, the individual members having full control of their organization through the directors elected by them. The same general principle applies to all producer cooperatives.

"Operation:

"The product is received from the member, and after inspection and checking, such member is given credit for the proper quantity and grade of his shipment. The product is then stored and kept in good order until sold in the best available market. An advance is made to the producer upon receipt by the cooperative of the product, and after sale, the total revenue, after deducting reasonable interest on capital invested and after setting up prudent reserves, is divided among the producer members on the basis of the volume of business which they have done with the cooperative. The necessary capital required by the cooperative to carry on this operation and to make the producer advances, is obtained either through the sale of shares to the producer or by way of loan.

"The cooperative distributes to its members, annually, its total receipts, less operating expenses, interest, and such reasonable reserve as may be required to guarantee against loss through price fluctuation, the amount varying with the particular product handled. Due to the very large fluctuations which may take place in the price of any commodity, it is essential that the cooperative maintain a sufficient reserve to guarantee itself against loss and to enable it to make a proper advance to the producer on his product. This enables the producer to carry on his production, knowing that he will receive a just and equitable cash advance on his product.

"The Producer Marketing Co-operative Organizations has proved of great benefit to both the producer and the consumer.

It has enabled the producer to carry on normal production, knowing that he will be able to obtain a cash advance for his product and that the product will be marketed in an orderly and profitable manner. It assures the consumer a more stable market for products and prevents violent fluctuations in prices.

"Taxation:

"Instead of taxing such organizations, which are on a non-profit basis, it is our belief that various governments should encourage their creation and operation. Any organization which tends to improve the position of both the producer and the consumer, should be worthy of every assistance from our Government. In the final analysis, the Government receives its tax from the individual producer, and in the long run it may receive more money in taxes from the individual producers than it would receive from any tax which might be levied against the Co-operative Organizations as such."

.....

BY MR. FRANCIS:

Q. I would like to develop for a moment the situation with respect to the Ontario Honey Producers Co-operative, and I may say that much of the routine will be omitted. The examination will be directed to the part which the Producers Marketing Co-operative can play in improving the quality of the product. This cooperative of which you have been Secretary-Treasurer for fifteen years was formed in 1921? A. Yes.

Q. And when first formed you had 350 members?
A. Yes.

Q. Were they fairly small producers of honey?

.. Yes, from very small producers to large, some of them.

Q. Was honey at one time regarded more or less as a hobby in Ontario? A. That is practically what it amounted to.

Q. And it is now a big business? A. Yes.

Q. You have now how many members? A. Eight hundred and twenty-six.

Q. Will you explain to the Commission just why this cooperative was formed. A. The Ontario Honey Producers Co-operative, which by my experience more or less typifies most of the others, was formed from necessity. There was a period following the last great war in which markets for honey were very much disrupted. There had been, as naturally you would expect, a fair demand for honey previously due to the great shortage of allied products, and this was gradually dropping away, and there was no concerted manner in which honey could be presented to the public as a product. That is, it was all more or less on the hobby basis, shall we say, individuals producing by individual effort in every case, and honey was a more or less forgotten article. At the same time there were men who had considerable money invested in personally-owned equipment for the production of honey and they found themselves in a very inadequate position as far as their product was concerned. It was only natural, then, that they should gather together and try to work out some scheme for the general good of all, which they did; and after several conferences and a great deal of discussion one way and another it was finally decided to launch a cooperative venture.

Q. And what have you been able to do through this cooperative venture? A. We have been able to present honey as a standard commodity to the consuming public.

Q. Was it not standardized before you came into the picture? A. There was no possibility of doing that because honey varies greatly as to grade and seasons and localities of production. So that it definitely was, and in my opinion still is, beyond the scope of any one individual producer to set himself up in such a position that he could standardize his particular product; and even if he did, unless the major portion of the honey that was being sold was presented on a standard basis, his effort would be more or less lost.

Q. Referring to another province with which I happen to be closely associated, speaking of the honey producers of Saskatchewan, I understand that honey producers have trouble with fermentation? A. Yes.

Q. What have you done about that? A. There was a great loss every year to the producers of honey which, under the conditions I previously explained as existing, was merely accepted as a loss; but under the cooperative method of operation the producers were able to benefit themselves by supplying from among themselves money for research.

Q. Research? A. Yes.

Q. Will you develop that? A. From this research was eventually developed a process for handling honey which permitted of its pasteurization without deterioration to the product, and eventually that led to the possibility of turning out a standard product which could be shipped world-wide without fear of having it come back as a result of fermentation.

Q. I do not want you to mention any names, but is the honey that you produce a nationally known commodity?

A. Definitely, yes.

Q. Are you prepared to say that the cooperative was the pioneer in having done research work in connection with honey? A. Positively, because before the cooperative was formed there was no one who took an interest in the matter. I always like to think of it as a collective effort on the part of the bee-keepers themselves, but before that no one seemed to be interested.

Q. Do you exchange ideas with the honey producers of Saskatchewan? A. Yes.

Q. Do you know Mr. Pugh,, the head of the organization? A. Yes.

Q. You pass your ideas on to him and he reciprocates and you each gain in that respect? A. We work together at all times on anything of mutual interest.

Q. What was the volume of your business last year in round figures? A. About 3,000,000 pounds.

Q. And in dollar value? A. \$534,000, I think, is exactly correct.

Q. Would you explain the method of financing?

A. In our particular case the honey is received from the producers and at the time of receipt of the honey the producer is given a cash advance on it. There is no attempt made to calculate what will approximate the ultimate value of the honey. There is a small cash advance paid on it and sales commence immediately and revenues come into the hands of the cooperative, and as revenues increase from time to time a further advance will be granted to the producer, generally in terms of so many cents a pound, usually one or two, and when the season closes in our particular case -- this is not true of all cooperatives but we are fortunate enough to be able to do it -- we can close the pool at a time

of year coincident with the selling of practically the last pound of honey.

Q. You do not carry over? A. We do not have to. It is rather a fortunate position we are in so far as that is concerned, I admit. The producers' gains are then made up and the balances coming to them are sent out.

Q. One more question. Do you have a contract with your members? A. No.

Q. Did you ever have a contract? A. Yes.

Q. Was it legal and binding? A. It was very binding; it has been decided in court.

MR. PARKER: My learned friend should not put that on the record without the contract.

THE CHAIRMAN: Unless you are producing the contract, Mr. Francis, it is not of value.

MR. FRANCIS: Attention has been directed to the question as to the value of a written contract.

THE CHAIRMAN: If you are speaking of the contract it should be here; we should not have hearsay.

BY MR. FRANCIS:

Q. Is the contract now in force? A. No.

Q. Why did you discontinue the use of it?

A. Because we came to the definite conclusion that where cooperation was not voluntary it was practically useless. That was our experience.

Q. And do you find that the voluntary system works?

A. Definitely.

Q. Do you need a contract? A. We do not.

BY MR. PARKER:

Q. I gather from your brief that this whole movement began with the idea of enabling the farmers to get a better price for their honey? A. That is right. That is the main

reason.

Q. You do not mean to say that prior to that time honey was only produced as a plaything, a hobby?

A. Honey production has grown in Canada.

Q. That is not what I am asking you. I am asking you whether you really mean what you say, that until the time you speak of honey was produced as a hobby, just a peace-time plaything, and not as something out of which money could be made? A. In this regard, that there was practically no honey producer at that time in question who was producing honey as a living. It was a sideline.

THE CHAIRMAN: You mean the industry was not organized?

THE WITNESS: Yes.

BY MR. PARKER:

Q. It was organized to enable the producers to get it on the market at a profit to themselves? A. Yes.

Q. Through the medium of the cooperative? A. Yes.

Q. You say that you are in the fortunate position of being able to pay out to producer members at the end of the season all that is coming to them? A. Yes.

Q. How much have you in the way of capital in reserve? A. Other than reserve for depreciation of our fixed assets and a very trifling reserve we carry as a reserve for bad debts, the capital surplus is only \$11,000, and it is only fair to mention that over 50 per cent of that was built up from forfeited shares.

Q. That is what you have in liquid reserve. How much is all the building and plant and equipment valued at?

A. In the neighbourhood of \$80,000.

Q. How was that acquired? A. That has not been all paid for.

Q. How much has been paid for? A. Fifty per cent.

Q. How was that acquired -- by the sale of shares?

A. By the sale of shares.

Q. Or is it reserves? A. No, by the sale of shares.

Q. All of it? A. Not all of it. Of course, in the original instance, yes; the sale of shares took care of it. Then as years went on depreciation, which really in essence amounts to the subtraction of the portion to be paid out, took care of it and we expanded very slowly and capital we had invested was able to take care of our required expansion.

Q. But for the first few years? A. We had nothing.

Q. And in subsequent years: You did hold back and are holding until this day a certain amount of the proceeds of the sale of honey, which is represented now by fixed assets. Is that true or is it not? A. To the extent that the fixed assets are actually retired by reserve for depreciation, that is true.

Q. Roughly, how much is that? A. That amounts to \$36,000. There has been accumulated over years of operation roughly \$25,000.

BY MR. FRANCIS:

Q. I wish to have the position made clear with regard to this cooperative. This is one of the four mentioned this morning and it was desired that the financial statements and by-laws should be made available. I understand the by-laws are being supplied? A. They are ready and I have copies of the financial statements for ten years if you wish to have them. I have them right here.

MR. FRANCIS: We can file these. Am I right in assuming, in view of the evidence given, that it will not be necessary to present a brief on behalf of this organization in Ottawa?

MR. PARKER: It is purely a matter for you to decide.

MR. FRANCIS: There are three organizations. I want to be clear on our obligations with respect to these three. Does the Commission expect a brief from any or all of these at Ottawa?

MR. PARKER: If you wish to produce briefs.

THE CHAIRMAN: Do you not think, whether the brief is actually read in open court, it would be very useful, with the financial statements and the by-laws that you are producing?

MR. FRANCIS: Yes, my Lord.

THE CHAIRMAN: Without formal presentation in court. Is that what you mean? I think that is what we should like to have.

MR. FRANCIS: It is sometimes well to have the witness available in case something is not clear.

THE CHAIRMAN: You cannot do that at the moment.

MR. FRANCIS: But later on.

THE CHAIRMAN: Will there be a witness there?

MR. FRANCIS: We can arrange for that if the Commission desires.

MR. PARKER: That will not be necessary unless later on the witness is invited to come. If you care to have a written document, I should think that would be sufficient.

THE CHAIRMAN: We might have to ask for that later.

MR. FRANCIS: In support of this general brief on behalf of the Producers Marketing Organization we will call Mr. Harry Hewitt

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HARRY HEWITT,

Secretary,
Haldimand Farmers
Co-operative Association,
having been duly sworn
testified as follows:

BY MR. FRANCIS:

Q. You are a farmer by occupation? A. Yes.

Q. You are Secretary of the Haldimand Farmers
Co-operative Association? A. That is correct.

Q. I want to ask one or two questions about poultry
production and marketing in that area. I understand that
the poultry production is extensive in that area? A. Yes.

Q. You have an average of 195 birds per 100 acres
of clear land? A. Yes, according to the statistics.

Q. Is it one of the major items in farm production
in that area? A. One of the heavy ones.

Q. Very briefly, would you explain to the Commission
the urgent reasons that led to the formation of that co-
operative association. A. I may say that owing to the
urgency of the demand of the market for poultry in that
district, and at the instigation of the Federation of
Agriculture in the county, the farmers of the district
felt that something should be done to assist them in the
orderly marketing and in the quality of the product.

Q. What was poultry selling for at the time?

A. On the local markets of Dunnville and Hagersville,
15 and 16 cents a pound live weight.

Q. What was done about it? A. About a year ago there
was organized the Haldimand Farmers Co-operative, and they
conceived the idea of erecting a poultry processing plant or
else of getting a location, a building, and adapting it to
that processing, and in a hurried-up manner, there was

installed a very efficient poultry cooling and processing plant, with facilities for handling poultry until such time as the product could be placed in cold storage and adequately marketed to bring the best returns to the farmers.

Q. How many members are there? A. 560.

Q. Are they poultry producers? A. For the most part poultry producers.

Q. As a direct result of the organization and operation of the cooperatives has the price been raised? A. Yes. The price has been raised considerably because of the operation of the Haldimand Farmers Co-operative, and the poultry industry in the county of Haldimand is gaining by it, from 6 to 7 cents a pound.

Q. Is it fair to attribute that increase entirely to the cooperative? A. I would consider that at least part of that increase might be seasonal, but a very small portion of it, that portion of it which would give a seasonal increase from the first of October until the present time. I would feel assured in quoting the statement that poultry has gone up 6 or 7 cents a pound to the farmer.

Q. Is that a substantial item? A. Considering the quantity of poultry which is marketed throughout the county of Haldimand I would consider it means a lot to the farmers of the county and district.

Q. How many head of poultry has the organization processed since its inception last October? A. We had figures for three months from the beginning of operations until the last of December. I would say, approximately 56,000 or 57,000. That is chickens. We do not operate except in a very small way with fowl.

Q. Is that chickens or pounds? A. Chickens.

Q. Before the establishment of this cooperative where was the poultry marketed? A. The major part of the poultry was marketed on the local markets of Dunnville and Hagersville and some in Hamilton.

Q. By whom was it bought? A. By hucksters who attended the market where the live poultry was sold.

Q. Is there any difference in price as between hucksters at various points? A. Very little.

Q. Is there anything you want to add to that?

A. I can say that the trouble that brought this organization about was particularly in connection with poultry. It seemed as though the hucksters would gather at various corners of the markets and they had a set price for poultry, and as the farmer came in he was bid that price and there was no opposition to raise it. If he did not accept it he would have to take the poultry home and the huckster appeared on the scene the next day and the farmer was told that was all he could get.

MR. FRANCIS: There is another subordinate submission, which can be filed without being read or presented orally.

THE CHAIRMAN: It would be along the same lines?

MR. FRANCIS: It deals with fruit.

THE CHAIRMAN: With the emphasis on certain points?

MR. FRANCIS: Yes.

THE CHAIRMAN: Perhaps you might submit it as read.

MR. FRANCIS: There is one point I would mention and perhaps the Commission would like to hear evidence on it. Income tax was paid for years on patronage dividends and then it was discovered that this was not the correct thing to do and an attempt was made to recover it and a large sum of money was recovered. Although the company was operated on

a cooperative basis, it was one of the early cooperatives, formed in 1913. At that time there was no cooperative legislation and therefore it was organized under the Joint Stock Companies Act. But it did operate on a cooperative basis and it paid patronage dividends, and apart from the limitation of the statute, \$2,900 was recovered from the Dominion Government after it had paid on patronage dividends.

THE CHAIRMAN: That is so unusual that we might hear it.

ROGER CLARKE,
Haldimand Farmers Co-operative
Association,
having been duly sworn
testified as follows:

BY MR. FRANCIS:

Q. Unless the Commission pleases, I do not think we will read the brief. As briefly as you can, I would like you to tell the Commission your experience in connection with income tax. First of all, you are a director of your organization? A. Yes.

Q. It is a fruit marketing organization? A. Yes, a farmers' supply organization.

Q. You handle supplies for fruit growers? A. Yes.

Q. And you have been authorized by your Board to make submissions and to furnish information to the Commission? A. Yes.

Q. Can you briefly tell your experience in connection with income tax. A. Mr. Chairman and gentlemen, this Company was organized in 1913. At that time there was no set-up in the Ontario law, as I understand it, for the organization of cooperatives. The Company was therefore incorporated as a joint stock company by the original four members who formed it. In the autumn of 1913 operations began.

The Company went on and grew from there, throughout the last war and during the 1920's, and has continued to grow since. My first association with the Company dates back to 1926 after the war, so that I am afraid I cannot go on record here with regard to the income tax experience during the period of the 20's. The farthest back my figures go would be to 1932. At that time the auditing of the Company's books was done by a local auditor of the St. Catherine's district, and we did have the advice of a solicitor at that time. The directors are farmers and we try to run on a common sense basis and when we need advice on special matters we try to get it. According to the advice given us by this auditor and the solicitor, we were, as a joint stock company, compelled to pay income tax on all our earnings after the deduction of expenses. In 1932 our total income on that basis was \$5,358.61 and the patronage adjustment was \$4,786 and income tax was \$572. That was not recovered. In other words, that was income tax at the rate of $13\frac{1}{2}$ per cent on that total income after deduction.

THE CHAIRMAN: That was in 1936?

THE WITNESS: That was 1932, sir. In 1933, under the same circumstances -- I have not the actual amount -- our income was lower, \$4,450.27, and the patronage adjustment \$2,000. In 1934 our income was \$6,909 and the patronage figure was \$5,861 and income tax \$1,048. That is the amount on which income tax under present conditions should have been charged. I have not the actual amount but we paid $13\frac{1}{2}$ per cent on that total of \$6,909 in that year. That was in 1934. In 1935 our income was larger. That was a favourable year and it amounted to \$18,600. The patronage figure was \$13,000 and the amount which should have been subject to taxation

was \$5,600, which was passed to reserve, on which we paid income tax. I am not sure of the rate, but in any case we paid a tax that year of \$2,795. Our tax should have been \$845, leaving \$1,950 which we lost. Perhaps I should explain that we employed a new auditor in 1939. At that time the income tax adjustment for 1936 had not been completed and he was therefore able to reopen 1936-37 but he was not able to reopen 1935, which had been completed before that. In 1936 the income was \$14,100 and the patronage figure was \$13,000. The taxable income should have been \$1,145 and we actually paid a total tax of \$2,105, but we recovered \$1,923 since we were able to reopen that. In 1937 the total income was \$11,000 and the patronage \$9,000. The taxable amount, the sum properly taxable, would have been \$2,000 and the income tax on that should have been \$353. We actually paid \$1,703.42 and recovered \$1,350. In 1938 there was a small recovery. In the three years we recovered \$3,565; 1936 had not been settled. After that, since 1938 and the beginning of 1939, the new auditor showed our operations in the proper form in that the returns, the deferred payments to members, were not shown as taxable income. They were deducted from taxable income and the amount remaining, which was passed to reserve, was that which was taxed.

BY MR. FRANCIS:

Q. I understand that it was necessary for you to petition the legislature in order to obtain a special act?

A. Yes.

Q. And that has been obtained? A. Yes.

Q. You are operating under the new act? A. Yes.

Q. And the organization is a cooperative in its nature.

A. Yes. We always have operated as a cooperative. The

disbursement has always been on the basis of the business done by members through the Company except that in the early years there was a dividend paid on share capital. That was eliminated in 1930 and since then we have paid no interest on share capital.

Q. This is a cooperative that has been operating for some thirty years and you have been there twenty years. Would you give the Commission the benefit of your opinion as a farmer? You are a farmer? A. Yes.

Q. Will you give us your opinion as to the effect, if any, good or otherwise, which this cooperative in that district has had on the community? A. In the first place, it has had a very definite effect in the fact that the cooperative has returned to members over \$200,000 in the period in which it has been operating, and \$200,000 scattered among the farmers in that area represents a very considerable addition to their ability to have good buildings and to operate efficiently.

Q. Any other effects? A. The cooperative was started definitely because there was a lack of proper facilities both for supplying the farmers in the area with the supplies they needed, and proper facilities for marketing their products.

Q. Any other effects? A. I think that unquestionably the Company, because of its operations, has tended to bring about an improvement in the general level of marketing even for persons outside. While we pay generally the same price as independent dealers for fruit, I think probably these independent dealers pay a higher price than otherwise in order to compete with us.

Q. Any other effects? A. Of course the Company, having also facilities for distribution of coal, serves a

very useful purpose in a community which has to depend almost entirely on coal for its winter fuel; and it distributes feeds, fertilizers and all those other supplies that are needed. We have an excellent stock of all these things and that is definitely a benefit and an advantage to persons who are not members of the Company because they are able to buy at the same prices as our members.

Q. Anything else? A. That is all I can think of.

BY MR. ARNASON:

Q. You are now reorganized under Special Act of the legislature? A. Yes.

Q. Are you organized on a share capital basis?

A. Yes. That has not been changed. The purpose of the special act was to declare that we were a cooperative.

Q. There was no fundamental change? A. There was no fundamental change in our structure at the time.

Q. What percentage of business do you do with non-members? A. The percentage that we do with non-members is larger in what might be called the supply business because of coal and other items. In the supply business our percentage is 44 per cent with non-members, and in the fruit business I suppose it runs to 90 per cent with members--that is, in the sale of fruits.

BY MR. VAUGHAN:

Q. It is stated that the same price is paid as paid by independent dealers. Does that mean that you buy fruit and pay the same price as independent dealers? A. When the grower brings in fruit to the station, as we call it, he is given a chit for that fruit and except at certain times when the market is unsettled he will be given a set price on that chit.

Q. It is an actual purchase? A. It is a purchase to this extent, that he knows he will get that much anyway for it.

Q. And when you sell it the difference is returned as a patronage dividend? A. Yes.

Q. You call that a surplus, or whatever you term it?
A. We call it a deferred payment.

BY MR. PARKER:

Q. Is there an obligation to return that surplus or is it a matter of discretion on the part of the Board of Directors? A. It is a matter of discretion with the Board of Directors.

BY MR. ARNASON:

Q. The by-laws make provision as to what shall be done with the surplus? A. Yes.

THE CHAIRMAN: I noticed that Mr. Parker was careful not to ask you if you had also changed your solicitor.

MR. PARKER: I assumed it was the solicitor who advised him to get another auditor.

BY MR. MILLIKEN:

Q. Since 1941 have you received any intimation or letter from the Income Tax Department that your patronage dividends are a proper deduction before arriving at taxable income? A. I am afraid I cannot answer that. Probably the auditor is the man who takes the matter up with the Income Tax people.

BY MR. FRANCIS:

Q. Did I happen to be acting for you in 1932?
A. I don't think so.

MR. PARKER: The next submission is by the Investment Dealers Association.

A. G. A. SPENCE,

President,
The Investment Dealers'
Association of Canada,
having been duly sworn
testified as follows:

BY MR. PARKER: You are appearing in what capacity? A. As President of the Investment Dealers' Association of Canada.

Q. How was the brief which you are about to present prepared? A. It was prepared and submitted to the Dominion Executive of our Association, which is composed of representatives, one from the Maritimes, one from the province of Quebec, one from Ontario, one from the prairie provinces and one from the province of British Columbia.

Q. What section of the community does your Association represent? A. Our Association represents firms in the financial business. There is a membership of 102 firms right across Canada with head offices and fifty branches offices, and in addition to that we have associate members who are also firms in financial business, 93 firms, so that we have 245 firms in Canada all engaged in financial businesses.

Q. You mean, buying stocks and bonds? A. Yes.

Q. Issues of so-called corporate and Government securities? A. Yes.

Q. You might read your brief. A. The brief is as follows:

"It is the function of the members of the Association I have the honour to represent to investigate opportunities for investment, and negotiate the sale of securities. While precise calculation is impossible, those securities have been widely distributed and, it is estimated, are now held

by, or on behalf of, most of the breadwinners of the country.

"It follows this Association is deeply interested in the matter now under consideration by this Commission; and asks permission to express a considered opinion as to certain phases of the inquiry.

"At the outset, may we state the place we understood the cooperative movement occupied in the country's economy. Quite frequently that economy is spoken of as 'Capitalist'; but we suggest, on reflection, it is better called an economy of freedom of selection of the means of fulfilling the wants of the people; in other words, it is the common-sense practice of adapting means to ends. As we all know; there are many economic services assigned to the State (notably, postal services); there are almost innumerable services performed by individual enterprise; while, for services requiring an association of individuals, legislation has provided two forms of incorporation, namely, by joint stock companies and by cooperative societies.

"It does not appear necessary to recite the provisions of the Company Acts, nor mention the legislative measures regulating the sale of securities in which the members of our Association are concerned; nor, shall we discuss the legislation affecting the organization of the cooperatives. The matter we desire to stress is the policy that people, as producers and as consumers, should have freedom of choice as to the means of service, and, wherever services call for an association of individuals, governments have stipulated for voluntary association and the conduct of business the democratic way.

"While the cooperative movement extends over several fields, our representations will be confined to 'consumers cooperatives' and 'agricultural marketing cooperatives'.

The distinction is not to be always closely drawn because there are cooperatives with mixed objectives. In fact, one finds sharp diversity of objectives, even antagonism.

The consumers cooperatives strive to eliminate profit; the producers cooperatives struggle to secure profit; everywhere there are those who attempt to use the cooperative movement in an effort to do away with personal ownership and abolish capitalism and, yet, writing of farm cooperatives in the United States, R. V. Gregory (American Co-operation, Washington, D. C.) declares: 'Farmers are essentially capitalistic. Their pride of ownership is strong. This is true even of most tenant farmers. Their chief complaint against the established order is that it has not enabled them to be better capitalists -- to own more. Their reason for cooperative endeavours, whether buying or selling, is not to eliminate private profit, but to get more profit for themselves.'

"It would appear that the 'pride of ownership' is not confined to American farmers for, speaking to the Fabian Society, a Socialist Don of Oxford University, A. L. Rowse, complains that British farmers do not take willingly to cooperation and insists: 'They will have to be made to co-operate, because they are responsible for an industry of national importance, and it cannot be allowed to be prejudiced because of their ingrained individualism and conservatism.'

"I cite the diversity of objectives of the cooperatives that I may the more explicitly state we have no protest to lodge with the objectives of voluntary cooperation -- not even an effort to displace 'Capitalism' -- so long as the thing is done by competitive effort. Society's service is paramount. But when the State provides that one

organization of service is taxed the more that a competing organization should be taxed less (or not at all), we appear before you to protest. If economic organizations -- companies and cooperative societies -- are to be judged by their relative capacity for social service, the eminent agrarian economist, Paul de Hevesy, was manifestly right when he declared: 'While, there obviously are commodities which will benefit from cooperative handling, there is nothing to justify the granting of any State assistance to the cooperatives. If the cooperative is able to reduce costs, there should be no need for State assistance. While, if the cooperative is unable to reduce costs, there is no need for the cooperative.'

"When cooperative marketing associations engaged in export trade ask for exemption from taxation, surely they cannot have forgotten the disaster that came over the world by violation of the rule that trade is based on relative costs. That rule may be violated within nations, but not with impunity in trade between nations as we shall now observe:

"In a paper, delivered to the Fourth International Conference of Agricultural Economists (1936) von Dietze (University of Berlin, Germany) began by saying: 'During the years following the great depression of 1921, overseas exporting countries, Australia, New Zealand, South Africa, and Canada, were the countries which developed new organizations for the marketing of agricultural produce, partly following institutions which had been developed in war food administration.'

"Looking back, it makes strange reading to find a German economist citing the export activities of Australian

and Canadian wheat pools as an initial stage of a 'new order'. But it is of record that, on the advent of the pools, the cereal growers of importing countries immediately brought organized pressure to bear on their government, urging that they were being subjected to 'unfair' marketing practices, in that the pools had received government assistance. Whatever the merit of the contention, the governments of the importing countries were quick to respond and as a consequence, although at the beginning of 1924 the importation of wheat had been free in eight of the most important wheat importing countries with 64 per cent of the world import market for wheat and wheat flour, at the beginning of 1929, the number of free markets had shrunk to four with only 39 per cent of the import demand.

"The restrictions placed on the importation of wheat in some of the European markets naturally resulted in a 'glut' in the free markets which, in the words of the League's Economical Committee, 'brought the mass of the farmers face to face with the problem of markets and prices.' With lost agricultural buying power, the world fell into depression.

"The wheat growers themselves were the first to suffer from the government action that was supposed to assist them. And yet the lesson had not been learned that governments may not with impunity subsidize the marketing of export products (particularly when they come in competition with the products of domestic agriculture). The governments of the deficit (importing) countries were obliged to protect their farmers from state assisted competition, and the League's Committee expressed the opinion, in 1935, that 'Even the agricultural exporting countries cannot but regard such an aim with sympathy.' But whatever 'sympathy'

there may have been in the matter, this country did not desist from the practice of 'assisting' export trade; in fact, the governments intensified their intervention. The Director of the Austrian Institute of Trade Cycle Research, Morgenstern, in reviewing the course of world depression caustically remarks that on this side of the Atlantic we took effective measures 'against recovery.' The German agrarian economist, von Dietze, continued his survey to say: 'The Canadian Government supported the wheat pools which had got into serious difficulties, and finally the pools were replaced by a Wheat Board which has to pay minimum prices. Generally, the Canadian Government has, by the Natural Products Marketing Act, 1934, provided for the setting up of local marketing boards which are charged with the marketing (or the marketing control) of certain products. Apart from that Canada has provided for deficiency payments which are meant to subsidize unprofitable export.'

"Needless to say these matters have a direct bearing on the present enquiry. While tax exemption is only one of several forms of subsidy that may be granted producers, it is particularly resented when applied to the exportation of agricultural products to European countries because, over most of Europe, agriculture has borne a high rate of taxation. If the farmers of the Old World (including the United Kingdom) are subjected to even greater taxation after this war, it is safe to conclude they will be even more concerned over competition with imported foodstuffs. Although the rules of international trade are unwritten, violation is none the less subject to penalty; as a country especially dependent on exports, it appears most important that in

peace time it is the customer (the importing country) that interprets the rules and arbitrarily imposes the penalties.

"While history is not supposed to ever quite repeat itself, there is a well recognized sequence to social consequence. War is a collectivist thing; and looking back it was perhaps to have been expected the Totalitarian State would emerge out of the upsets of the war of 1914-18; and we ask permission to submit evidence of the bearing of the distribution of taxes over industry and commerce on a plan to overthrow the social structure of this country. If it be thought we exaggerate the matter, we can only say the evidence must speak for itself.

"While most people in this country presumably regard cooperation as an alternative economic service, it is to be remembered the Russian peasantry (as the agrarian economist Pavlovsky tells us) once regarded 'The Cooperative Commonwealth' as a means of distributing the ownership of property, only to find it developed into a concentration of power in the hands of a State bureaucracy. That we may not be accused of misrepresenting a matter so currently controversial, we cite the outline of the plan as given by Professor Sikes of Dartmouth University who says it is planned:

'that retail cooperatives will gradually take over all retail business; they will buy from wholesale cooperatives, which, in turn, will operate manufacturing plants for supplying consumers' needs; the principles on which farmers' cooperative sales and purchasing organizations operate will be pushed back to the production of farm supplies; cooperative

credit and insurance associations will furnish the necessary capital for the other cooperative activities; services such as telephone systems, housing, health and the like will be furnished on a cooperative basis; international trade will be carried on by cooperative societies in the various countries.

'With its foundation on the economic democracy of cooperation, the theory runs that a politically democratic Cooperative Commonwealth will supersede the present types of political organization -- the functions of government, of course, would be greatly reduced, since no longer would regulation of business activity be necessary. The framework of the Cooperative Commonwealth exists, it is held, in the present local cooperative societies and their federation into national societies.'

'The plan would include organized labour with a political structure having two chambers, one with representatives of the consumers societies, by geographic regions, and the other representing the cooperating workers from each major trade, industry and occupation. The executive division would come from the directors of the national cooperative organizations.'

'The scheme is no longer to be dismissed as a fantastic dream; the times have made it a matter of a citizen's choice between the structures of society. That the scheme has substantial backing within the organization of industrial wage-earners is indicated by the publication of a report on cooperative organizations by the International Labour Office (Montreal, 1944) in which emphasis is laid on the essential similarity of the cooperative societies and

trade unions in that both movements are 'carefully fashioned federal structures'. The conclusion drawn in the report is frankly stated: 'The purpose and result of cooperative integration are not to bring wealth or power to a few, but welfare to the many, and this not as a by-product of profit-seeking, but as an end in itself.' Particularly significant is the classification of the 'collectivist organization' of the Soviet Union as 'cooperative societies.'

"While the nomenclature of social structures is confused (and sometimes confused with apparent design) one would have thought the experience of the interval between wars had justified Pavlovsky's conclusion that 'cooperation cannot exist in a Socialist or Communist State, as the experiences of Soviet Russia has amply proved. The cooperative movement is the product, as well as the necessary corollary, of Capitalism; and in Russia its growth accompanied the industrial revolution and the awakening of the individualist spirit in the countryside. While the country still lived under conditions of predominantly natural economy and self-supplying maintenance farming, the attempts to implant cooperative organizations in the villages, made in the 'sixties and 'seventies by well-meaning intellectuals, met with distrust, ridicule and ultimate failure. When, however, by the close of the last century, conditions had changed and Russia had begun to develop along capitalistic lines, the ground became more favourable to cooperative organization, and the movement took roots among the peasantry.'

"It is in that background, we submit the matter before this Commission should be considered. It is the impact of the rule of size that has brought us face to face with change

in the social structure -- the size of the burden of taxation; the size of its maldistribution between the competitive services of society. From the outbreak of the war to November, 1944, the disbursements of the Dominion Government have amounted to the colossal sum of \$19,000,000,000 of which some \$9,500,000,000 have been raised by taxes and other current revenue. We cannot believe the members of the cooperative societies generally desire to escape a fair share of the costs of the war; but the fact remains that, under the present set-up of taxation, the cooperative societies during the war have been accumulating surpluses, while others engaged in competitive effort are taxed to the bone.

"The greater portion of war expenditure (as we all know) has been made by borrowed money; in September, 1939, the annual interest charge payable on Federal debt was \$162,760,000; in November, 1944, the interest charge on that debt amounted to \$374,790,000 -- and the end is not yet. With a population of less than 12,000,000 it will be a heavy burden to carry for years to come.

"War demands sacrifice; but the sacrifices of war are never equally distributed. In the altered course of production, the incomes of those who possess the equipment or materials urgently needed for the prosecution of war inevitably rise in war economy (at least, as compared with those who do not possess those advantages). It was out of that situation there came the issue of war wealth that so disturbed the aftermath of the other world war. The economy of the war that began in 1939 was designed that the State, by taxation, would draw off the profits of wartime. The production of many goods has been prohibited, while other

industries by reason of strain on plant and equipment, combined with inordinate taxation, now face the problem of obsolescence with depleted reserves.

"In view of that condition, it appears incredible that the State should permit funds arising out of the sacrifices of the people -- and so sorely needed for the war effort -- to be diverted in expansion of the capital investments of the cooperative societies.

"While the members of our Association have a personal interest in the survival of the joint stock companies, and as dealers in securities have deep concern over the welfare of the hundreds of thousands of people who hold the securities of the companies, we realize that primary consideration must be given to the service of society; bearing in mind the issue directly at stake in this enquiry, we paraphrase the dictum of de Hevesy: 'If the cooperatives can serve society better than individuals and their association in joint stock companies, then, there is no need for the tax exemption of the cooperatives.' The term 'competitive economy' does not apply alone to competition within the services, it applies, as well and particularly, to competition between the services -- a competition that cannot survive under the present distribution of the abnormal burden of taxation.

"(If the incidence of the tax were reversed, if the cooperatives bore the tax in question, while the business of individuals and joint stock companies was exempt, it would hardly be argued that the cooperative societies could survive).

"The matter referred to this Commission affects many phases of the social structure. You have had many representat-

ions and we have no desire to retrace the ground you have already covered, but before concluding our statement there are several matters we desire to stress for your consideration

"This country has been substantially dependent on foreign capital, and especially on American capital, for development of its industrial resources. In fact, it will be found that a considerable volume of employment is furnished by 'branch houses' engaged in manufacturing for both the domestic and export markets (e. g. motor cars, agricultural implements and paper). We ask that consideration be given to the impact of the distribution of taxes between companies and cooperatives on the continued investment of 'outside' capital and especially during the years of industrial rehabilitation.

"If it is argued society would be better off by abandoning freedom of choice between the forms of service, better off by substituting the cooperative system for capitalism, then, we ask for a comparison of this country's national income with the incomes of other countries in peace-time economy, including the distribution of income by way of industrial wages and agricultural earnings.

"For years to come, the commerce of the country will be taxed, not only for expenditures made in the course of this war, but taxed -- heavily taxed -- for the 'needs of the unconquered field of social services'; is it to be argued that, by change in the form of organization, business is to be permitted to escape taxation for those purposes. For specific illustration, is the trade of the village store-keeper to be taxed in support of family allowances, while business owned by thousands with turnover running into millions is partially, or wholly, exempt from taxation

because that business is organized on cooperative lines? We submit it is quite untenable that any body of citizens should be allowed to withdraw from contribution to the common fund and still expect to share in its distribution.

"If it is argued that the cooperative society is a defensive measure against the exploitation of consumers and producers alike, then, we ask that evidence be taken of the spread between retail prices and primary producers prices wherever the capitalistic middleman has been dispossessed. The economy of the Soviet Union, for example, was ostensibly designed to close the gap in food prices and, by the records, has widened it; a comparison of retail prices in 1938 indicates higher prices for bread and other foodstuffs in Moscow than in London or New York, and searching for an explanation of the spread the statistician, Colin Clark, reports the so-called consumers cooperative societies carry a turnover tax of about 75 per cent with a further 7 to 10 per cent by distributive costs, indicating that 'the cash income of the peasants amounted to 15 to 13 per cent of retail sales of foodstuffs.'

"But above all are we concerned over the matter before this Commission as it affects the declared ultimate objective of the cooperative movement. On the statement of the President of The Co-operative League of the United States, J. E. Warbasse: 'The theoretical end of consumers' cooperation is to purchase the land from the farmer and employ the latter as an agricultural technician, to replace production for profit by production for use, including in that transition the gradual disappearance of all organizations (producers' cooperatives and labour unions) limited to a craft or a class'. And then the head of the

cooperative movement in the United States went on to proclaim 'the evolution may substitute cooperative democracy for the State.'

"The nomenclature applied to the social structures does not change their essential features. Even in urbanized England, the attendance at the meetings of the cooperative societies is rated at less than 5 per cent of the membership, the conduct of business is left in the hands of the bureaucracy. To concentrate economic power in bureaucratic hands and then proclaim the bureaucracy is the government is manifestly to create a Totalitarian State --- and none the less totalitarian because it is called a 'Co-operative Commonwealth'.

"The Investment Dealers' Association of Canada is of the opinion that the cooperatives should not continue to enjoy a preferred position in regard to the incidence of taxation resulting from the application of the Income War Tax Act and the Excess Profits Tax Act 1940, and in conclusion we submit that these tax measures should be made to apply impartially to business conducted by individuals, joint stock companies, cooperative societies or by whatever agency conducted.

"Respectfully submitted,

The Investment Dealers' Association
of Canada

Per: J. A. G. A. Spence
P r e s i d e n t."

.....

BY MR. VAUGHAN:

Q. There is no recommendation as to any method of taxation that might be employed? A. It would be taxation of profits, but in the discussion of the question as to a

definition of profits, the question is so wide that it was felt unwise for us, not being specialists in taxation, to make any special recommendation.

BY MR. PARKER:

Q. There are one or two questions I wish to ask you. You have raised a point in the earlier pages of the brief, and you return to it at the end, in regard to which I think we should have some explanation from you. The suggestion is made that the trend of the cooperative movement in Canada is such that it will in some way interfere with the political structure. Is that what you intend to argue? A. Those are only quotations from authorities.

Q. Do you quote them as applicable to the situation in Canada, or for what purpose are they given? A. I believe the quotation you have in mind which I took was from a Canadian author, Sikes.

Q. I don't care whether Canadian or Chinese; do you cite it for the purpose of suggesting that there is danger in this country from this trend? A. Generally speaking, there is danger in every country.

Q. We are only concerned with this one. Do you say the danger exists here? Is that the suggestion you want to leave? A. Before making a definite reply to that question I would consult my executive. We are speaking in generalities in that quotation. We are making no statement other than in generalities as to what is the tendency the world over as expressed by these quotations.

Q. Sometimes insinuations are more deadly than direct statements. Do you wish to avoid making a direct statement to that effect or are you giving the quotations to insinuate that? A. This is not necessarily a personal statement of my beliefs. I would be glad to consult my executive if you

want an answer.

Q. In any case, if the trend you outline does exist, whether it be sinister or otherwise, does your brief suggest that it should be checked, whatever that tendency is, by the imposition of taxation on these societies? That seems to be the implication as I read the brief. Is that correct?

A. We express ourselves in a slightly different way from that in the brief.

Q. If you do not mean it in that sense perhaps you would like to explain it. I was afraid that suggestion might be taken from it. A. It is rather difficult to put it into words without being misunderstood.

Q. That is what I am afraid of; it may be misunderstood. A. We maintain in the brief that from past history, and the authorities we could quote, there is definitely a danger generally speaking that the cooperative movement, carried to its ultimate conclusion, might be very detrimental, and we firmly believe that Government subsidy to any particular type of structure is wrong.

Q. If this tendency exists in this country -- and this is the country we are dealing with -- are you suggesting that it should be checked by an amendment to the Income Tax Act? A. We express ourselves along that line on the last page of the brief.

Q. Then I am correctly summarizing it; and yet you have not gone so far as Mr. Vaughan indicated, and thought out a detailed scheme which you are prepared to recommend to the Commission? A. That is right.

Q. You have not thought out a detailed scheme as to the extent of taxation, or on what funds of the cooperatives the tax should be levied? A. That is right.

Q. You have no ideas on that in your Association?

A. Not that I can express.

BY MR. FRANCIS:

Q. I would like to ask you a question or two with reference to this brief. May I direct your attention to the second last paragraph on page eleven: "Even in urbanized England, the attendance at the meetings of the cooperative societies is rated at less than 5 per cent of the membership; the conduct of business is left in the hands of the bureaucracy. To concentrate economic power left in bureaucratic hands; and then proclaim the bureaucracy is the government is manifestly to create a Totalitarian State -- and none the less totalitarian because it is called a 'Co-operative Commonwealth.'" From what statistics do you obtain that percentage of less than 5 per cent? A. I haven't got it here but I would be glad to give it.

Q. We would like to have it now. This goes right across the country in the press. A. I am frightfully sorry, but I haven't got it.

Q. I am frightfully sorry too. What do you mean by bureaucracy? A. I am sorry, I am not a dictionary.

Q. Have you got a dictionary? A. Not presently with me.

Q. Have you looked this word up? A. Yes.

Q. What does it mean? A. I am sorry. From memory I would not care to quote it.

Q. You said you were frightfully sorry; I am frightfully sorry too. I do not want this to be degraded into an argument over terms, and I am serious about this, Mr. Chairman. But here is a charge brought against 8,000,000 people in the cooperative movement in Great Britain -- workers

and others who are struggling. Here is a brief coming out of Canada with this charge against these 8,000,000 people. I would like to know what it means and I suggest that the Commission is entitled to know what it means. What does "bureaucracy" mean? A. I am sorry, I haven't got a dictionary with me.

Q. What does totalitarian mean? A. Same answer.

Q. You don't know. Do you suggest that the cooperative movement is the same as the German or Totalitarian state? Are you suggesting that? A. As I have said before, I am here representing an Association and if there are questions you would like to have answered as to the exact meaning of words I shall be glad to report to the executive. But I will not be trapped by such questions.

Q. Would you be willing to withdraw the brief on behalf of your Association? A. No.

MR. FRANCIS: I make application to have the brief withdrawn.

THE CHAIRMAN: I would not allow that, but the witness should be prepared to answer questions in regard to any paragraph that goes that far. You admit that, Mr. Spence?

THE WITNESS: Quite so.

THE CHAIRMAN: The statements there are made deliberately, I take it?

THE WITNESS: I believe so, yes. It was done in absolute good faith.

THE CHAIRMAN: And you would expect to be questioned in regard to the statements made in the brief?

THE WITNESS: It depends on the manner of the questioning, my Lord. It is difficult for me to give a definition of bureaucracy, as you appreciate, and also "Totalitarian State".

THE CHAIRMAN: You can leave the dictionary to us,

Mr. Francis. We may have to use it.

MR. FRANCIS: May I apply to have this paragraph withdrawn?

THE CHAIRMAN: No. I cannot agree to that. The brief is here and the people who make that statement stand behind it. I would not entertain a proposal to strike out a part of the brief for that reason.

MR. FRANCIS: I think I will leave the matter there.

BY MR. MILLIKEN:

Q. I want to ask a question. I do not think it has anything to do with the Commission, but it is in the brief. If I understood you correctly, you made a statement in the brief -- I have not seen it and there are no extra copies -- to the effect that between 1924 and 1929 the European importing countries objected to the wheat pools because they were Government-assisted. That is the purport of the statement. A. I think it was a quotation.

Q. It was in the early part of the brief.

A. It was a quotation from a paper delivered at the fourth international conference of agricultural economists in 1936.

Q. What page is it on? A. Page three.

Q. This does not seem to be in quotation marks. You say: "But it is of record that, on the advent of the pools, the cereal growers of importing countries immediately brought organized pressure to bear on their Governments, urging that they were being subjected to 'unfair' marketing practices, in that the pools had received Government assistance."

That does not appear in quotation marks.

A. That is a paraphrase.

Q. And you go on to say: "Whatever the merit of the contention, the Governments of the importing countries were quick to respond and as a consequence, although at the

beginning of 1924 the importation of wheat had been free in eight of the most important wheat importing countries with 64 per cent of the world import market for wheat and wheat flour, at the beginning of 1929 the number of free markets had shrunk to four with only 39 per cent of the import demand." I am in a position to know what I am talking about, and if you can show the Commission that there was one dollar of Government assistance given to any one of the Canadian wheat pools between 1924 and 1929 I would like you to point it out. There was no Government assistance during that period of time -- no Government assistance in any shape or form given to these wheat pools. Where did you get the authority for that statement? A. If you will follow the brief you will find further on that the League of Nations Economic Committee expressed the opinion in 1935.

Q. On what did they express an opinion? They did not say anything about the period between 1924 and 1929?

A. I don't follow you.

Q. They did not express any opinion to the effect that between 1924 and 1929 there was Government assistance to the wheat pools. Frankly, Mr. Chairman, this is outside the scope of your investigation but I merely wish to put this refutation on the record, because the statement contained in the brief is absolutely false. A. So far as the quotations are concerned, I have listed the references.

BY MR. PARKER:

Q. They are not quotations. A. Most of them are quotations. "Even the agricultural exporting countries cannot but regard such an aim with sympathy." That is definitely a quotation.

BY MR. ELLIOTT:

Q. Did you have something to do with preparing this

belief? A. To some extent, in that I was consulted.

Q. Did you have enough to do with it to satisfy my curiosity? As far as I can gather from reading it over, no Canadian source has been quoted although many foreign sources are given. A. There is Sikes. He may be an American, however.

Q. How did it come about that in a submission made with respect to Canadian cooperation it was not considered necessary to give Canadian references? A. I **did** not think it was considered necessary, to the best of my knowledge and belief.

Q. You do not know how that came about? A. There was no conscious effort along those lines. To tell you the honest truth, I had not thought of the point until you brought it up.

The Commission thereupon adjourned until
Wednesday, February 14, at 9.30 a. m.

.....

Toronto,
Wednesday,
February 14, 1945.

The Commission met at 9.30 a. m., Mr. Justice McDougall presiding.

Brief submitted by the Urban Consumer Co-operatives

MR. PARKER: Our trustworthy friend Mr. Francis is here quite early.

MR. FRANCIS: If the Commission pleases, my friend and colleague, Mr. Leonard Mitchell, will take charge of this submission on behalf of the Urban Consumer Co-operatives.

MR. MITCHELL: Mr. Chairman and gentlemen of the Commission, there are two or three portions of the brief as filed which we wish to have deleted. These portions were mentioned to the Commission in a telegram that was forwarded by Mr. Francis while the Commission was still in Winnipeg. On page three of the brief the whole paragraph beginning "In relation to these last two points" is struck out and also the appendix on pages six and seven.

THE CHAIRMAN: You wish that deleted also?

MR. MITCHELL: Yes, my Lord; pages six and seven are to be deleted. With the Commission's consent, instead of having the witness read the brief, I propose to go over it and read certain excerpts from it because it is largely repetition and the Commission has heard it many times before. There is nothing controversial. Then I will call on the witness, who can give pertinent information as to the tax situation. The point to which the witness will speak has to do with excess profits tax and it has not been raised before the Commission heretofore, and that is why we wish to substitute the oral statement of the witness for what appears on the pages we have deleted. The brief reads:

"In contrast to the practices of other provinces, the Ontario government does not publish annual statistics relating to the cooperative movement. Because of this and due also to the fact that most of the urban cooperative development exists in widely-scattered areas of Northern Ontario, it is impossible, at this time, to present anything like a complete picture of this section of the movement.

"It is known that two large societies centred in Timmins operate branches in that town and half a dozen other towns and villages in the northern part of the province."

It is one of these cooperatives that we propose to give evidence. Continuing:

"There are also several other urban cooperatives in Sudbury, Sault Ste. Marie, Fort William and Port Arthur. There are four or five stores in the Toronto area. One of these, Co-operative Service of Toronto Limited, is located at 846 Pape Ave. Appendix A, attached hereto, provides some relevant information about this society.

"It may be of interest to the Commission that ten years ago, the Royal Commission on price spreads referred in its report to Consumer Cooperation in these words, 'It is our opinion that further development of consumers' cooperatives in Canada would be of general benefit, introducing a restraining influence on the practices of other merchandising organizations and assisting in consumer education, which we feel, is most necessary. The informed consumer is in himself, the most valuable check on excessive prices and poor quality.' (Page 220 of the Report). If this statement was relevant in those days of 'buyers' markets' it is even more to

the point today, in a period of 'sellers' markets.'

Furthermore, the report says later on that 'While the cooperative movement in its operations asks no special privileges, it has a right to demand fair and equitable treatment from government and private enterprises.'

(Page 220. of the Report). It would clearly not be 'fair and equitable treatment from government....' to apply the Income War Tax Act to consumers' cooperatives. Consumer cooperation does not operate for profit, but for service. Its surpluses result only from overcharges made to its members to safeguard the savings they have invested in their society. When costs of operation are determined at the close of each financial period, all overcharges are credited to members in the form of savings returns or purchase dividends. In a soundly-operated society, costs include current expense, adequate but not excessive depreciation and contingency reserves, as well as a small appropriation for education. Sometimes, though not always, a small rate of interest is paid on capital.

"Co-operative Service of Toronto has always followed the depreciation rate allowed by Dominion Income Tax regulations. Only a nominal amount is set aside for contingencies. The interest on capital has never exceeded 2-1/2 per cent and the savings returns have never been more than 2 per cent on purchases.

"Even when some sales are made to non-members, it should be emphasized that consumer cooperatives do not want to make money out of non-member buyers. They encourage non-members to join the society and share in all its benefits. They make it easy for them to join and become full members on payment of small deposits towards their capital accounts.

They may build up the minimum requisite capital holdings through their savings returns. Many do this and easily form a good habit which, if continued over a period of years, results often in appreciable accumulations of personal savings.

"Moreover, non-members benefit considerably from the fact that consumer cooperation provide centres for community social and welfare activities, thus helping many people to live fuller and happier lives. It puts the Christian principle of the 'Brotherhood of Man' into action. Co-operative women's guilds raise considerable sums annually for charitable and patriotic causes.

"Another way in which non-member buyers share the benefits of cooperation with members is through the fact that by stressing quality and consumer values, consumer cooperation educates people to be more intelligent buyers and, furthermore, provides, as far as possible, those goods which contain these so-called hidden values.

"Again, where consumer cooperatives are well developed, they act as checks on unfair practices directed against consumers (i. e. adulteration of goods, short-weighting, misrepresentations in grading and advertising."

This is all dealt with in the report of the Royal Commission on price spreads. Continuing:

"The whole community benefits from such functions of the cooperatives.

"An important social function of consumer cooperation is that it is designed to increase purchasing power where it is most needed, amongst the lower income groups of the population. This becomes more and more important as the movement increases in strength and in variety of services supplied to its members.

"Consumer cooperatives through all their activities teach people to be more responsible and intelligent, democratic citizens. Through the democratic functioning of their societies members learn not only their rights under democracy, but also their responsibilities.

"Finally, consumer cooperation is concerned at all times with the welfare of employees. Good wages, bonus and working conditions are considered to be first charges upon a cooperative. Such benefits as sick pay, holidays with pay and retirement pensions are all provided as soon as the resources of the society will permit. Employees are encouraged to become members of the society which employs them and to express their needs at the directors' and members' meetings. They are encouraged to join trade unions of their own choosing and are impressed with the importance of their functions in rendering services to the community. They are friends of the member-buyers and thus create a friendlier atmosphere in their society's places of business.

"The foregoing should indicate that consumer cooperation is not just another way of doing business, but a way of life which teaches people to live fuller and happier lives and moreover, provides the institutional machinery whereby they may translate the highest principles of life into daily action.

"Surely such a people's movement should be encouraged by governments in every possible way, for such encouragement would bring to the whole nation, great economic, moral and social values."

Document filed with brief:

Appendix "A" -- Statement covering
Co-operative Service of Toronto Ltd.
Record of Growth - 1935 - 1944.

.....

Before calling the witness I should like to refer the Commission to a paragraph of the general brief submitted yesterday, because it was omitted at that time. I refer to the paragraph on page fifteen of the submission by the Ontario Co-operative Union. It is a long paragraph in the middle of the page commencing, "A further difficulty arises in connection with the Excess Profits Tax Act." I wish to quote this paragraph before calling upon the witness. It reads:

"A further difficulty arises in connection with the Excess Profits Tax Act. In calculating profits for the purpose of exemption from this tax, the salaries paid to any employees who are shareholders must be added to the net profit of the business. It is the practice of co-operatives to encourage their employees to become shareholders if the cooperative is organized on a share capital basis, or to become members if it is organized on a membership basis, and as a result in almost every case all the employees are shareholders or members. In non-cooperative business this is not the case. If a shareholder is employed by the company he usually owns a substantial number of the outstanding shares or has some substantial financial interest in the company. In such a case it is quite proper to add the salary of shareholders to the income of the company. In the case of a cooperative, however, all employees are usually shareholders or members. Usually each owns only one share of stock but no matter what his investment may be, he has only one vote, and his shares, if any, earn no more than a very nominal rate of interest, the surplus of the cooperative being returned to its members on a patronage basis rather than a shareholding basis. Under

these circumstances, to add the shareholders' salaries to the profits of a cooperative for the purpose of determining exemption from Excess Profits Tax means, in practice, that no allowance is made whatever for the salaries of any employees in determining such exemption. It is submitted this was never the intention of the Act and that the requirement should be abolished in the case of cooperatives."

This brings the point before the Commission, and I think, when you hear the evidence of the next witness, you will see how it is worked out in one case where it was very detrimental. And now I should like to call Mr. Haapanen.

C. M. HAAPANEN,

General Manager,
Consumers Co-operative
Society Limited,
having been duly sworn
testified as follows:

BY MR. MITCHELL:

Q. I understand you are General Manager of the Consumers Co-operative Society Limited which operates with head office at Timmins? A. Yes.

Q. How many stores does this society operate? A. Five.

Q. Where are they? A. Timmins is the main store and we have a branch at Schumacher, a mile and a half from Timmins, and South Porcupine, about three and a half miles from Timmins, and Dome Mines, about half a mile from South Porcupine, or perhaps three quarters of a mile.

Q. How many employees have you? A. Between thirty-five and fifty. At present it is about forty-six, the actual employees.

Q. How many members have you? A. A little over 1,200.

Q. How long have you been General Manager?
A. Since its inception in 1931.

Q. How long have you been connected with cooperatives of one sort or another? A. Since I was sixteen years old, with the exception of five years when I went to school and worked in a factory.

Q. You have been connected with cooperatives since you were sixteen years of age with the exception of five years? A. Yes.

Q. Who is President? A. Mr. Riihaimen.

Q. What is his connection with it? A. He is President of the Society and has been for the past ten years.

Q. Tell us his background and his relation to cooperatives. A. He comes from Finland. He was a member of consumer cooperatives in Finland.

Q. He had been a member of the consumer cooperative movement before coming to this country? A. Yes.

Q. How long has he been President? A. Nine or ten years.

Q. And who was President before that? A. Mr. A. Maken.

Q. Had he any connection with the movement in the Old Country? A. Yes. He was also a member of a cooperative movement in the Old Country.

Q. That is, in Finland? A. Yes.

Q. What is the national makeup of the members -- largely Finns, or does it include other nationalities?

A. We have a combination of all nationalities: Scotsmen, Chinese, Englishmen, Canadians, Finns, Ukrainians. I don't know if there are any others.

Q. Any West Indians? A. There is a member on the Board who has lived practically all his life in the West Indies, though I think he was born in England.

Q. So that your cooperative embraces all these nationalities? A. Very much so.

Q. And they work harmoniously together? A. Yes.

Q. What is the national makeup of the Board? Are there a number of these nationalities represented on it?

A. Douglas is Canadian; Smith was born in England, I believe; we have three Finnish members; we have an old Scotsman; and Mr. Fell, who has passed away, was also a member. He was one of the Old Country cooperators.

Q. Referring to England? A. Scotland. He was one of the original members.

Q. In the Scottish Co-operative? A. No, in our movement in Timmins.

Q. You have a brief which you wish to submit from the Consumers Co-operative Society Limited? A. Yes.

Q. Are you authorized by your Company to present this brief to the Commission? A. By the President and Secretary, yes.

Q. Will you read it? A. This is the brief of the Consumer Co-operative Society Limited:

"The Consumers Co-operative Society Limited was organized in 1931 by a group of people located in and around Timmins in the Porcupine mining district of Ontario. At present it operates five stores, two in Timmins and one in each of South Porcupine, Schumacher and Dome Mines. The stores handle a full line of groceries, flour, feed and coal. In 1938 the society's sales exceeded \$700,000 but due to a fire which destroyed the main premises and also due to the shift in population resulting from the war, the sales have

dropped to about \$550,000 annually.

"The authorized capital of the Company is \$100,000 divided into 10,000 shares of \$10 each. Originally only \$1,260 of this sum was subscribed and paid for and the remainder of the capital required for the purposes of the Society was obtained from members' loans. At the present time the paid-up capital is \$71,900, most of which has been accumulated by the members investing their purchase rebates in the capital stock of the Society. The by-laws provide, in Section 21 (b), that the issued and paid-up shares of the Society shall carry interest at not more than 6 per cent per annum as may be fixed by the directors. For a few years, interest was paid at the rate of 3 per cent per annum but no interest has been paid now for many years.

"A total sum of \$13,300 has been spent by the Society on community work and recreation for members and patrons of the Society. In addition to this a considerable sum has been donated to the Red Cross and various war services. Some of the community enterprises organized and sponsored by the Society are the following:

1. Christmas choir (over 70 children participating).
2. Boys' band.
3. Athletics and gymnastics for boys and girls.
4. Social evenings for elderly people.
5. The organization of a credit union.
6. Provided funds for a cigarette fund to boys overseas.
7. Employees war service groups.
8. Provided a summer recreation field for use of patrons.

"The Society during the thirteen years of its existence has paid property and business taxes totalling \$11,650.

"The total sales of the Society for thirteen years were \$6,150,000. The net surplus for this period was \$163,400,

of which \$109,100 has been paid or allocated to members' accounts as patronage rebates. Of the latter sum \$51,000 has been paid in cash as patronage rebates and the remainder allocated and payment deferred. In addition, members of the Society received \$3,710 in cash as dividends on shares during the period in which the Society was paying dividends on share capital.

"Although the Society does business with non-members, no accurate record of such business is available. All the Society's records were destroyed in the fire of 1939 referred to above, and since that date the only record is a record of sales upon which patronage rebates were paid. The Society does not attempt to segregate its member and non-member business, and in paying patronage rebates pays them only upon vouchers which must be turned in to the Society. The total sales represented by these vouchers never equal the total sales during the period, due to the fact that some patrons do not bother to turn in their vouchers and also the fact that no dividends are paid on 'feed sales' which are handled by the Society at a very low margin of profit. As an example, in the year 1943, the total sales were \$546,748.15. Vouchers turned in for dividends were as follows:

Members	\$182,467.34
Non-members	<u>23,421.47</u>
	<u>\$210,888.81</u>

"Up to and including the year 1940, the Society paid income tax on its net surplus after deducting only the patronage rebate paid or allocated to its patrons. In calculating such net profits no deduction was made for the amount set aside to the reserve fund, usually 20 per cent

of the year's surplus, nor for the amount written off as depreciation on buildings and equipment, which was usually more generous than that allowed by the Income Tax Department. In the year 1940 the net surplus was \$3,990.86 on which the ordinary income tax was \$718.35. The Income Tax Department, by adding to this sum the salaries paid to thirteen employees who were shareholders of the Company and held altogether only sixty-one shares of stock, ruled that the Society was not exempt from the payment of Excess Profits Tax and assessed it for a further sum of \$478.90, making a total tax of \$1,197.25. After considerable correspondence, this tax was paid by the Company. In 1941 and subsequent years the whole surplus has been distributed as a patronage rebate and the Company has not been subject to either Income or Excess Profits Tax."

* * * * *

BY MR. MITCHELL:

Q. I want you to turn to the first page of the brief in which you outline the community benefits sponsored by the organization. I should like you to amplify that for the benefit of the Commission. I understand you had a special man appointed as Educational Director? A. Yes.

Q. You might tell us what his job was and what was accomplished for the benefit of the community. A. We had a full-time employee for about three years whose work was entirely this kind of community or educational activity. He gathered groups together, elderly people, and had short social evenings as well as educational evenings. We had two children's choirs. We had one of the high school music teachers as a spare-time teacher and she was engaged to take care of the musical education of the children. This

was for about two winters, and in both sessions we had around seventy members participating, young children from the age of five to possibly twelve or fifteen. We also had one of our employees direct the young people in gymnastics and athletics, summer and winter. We had a field where they went in the summer and there were social evenings, mostly whist parties and sometimes a special programme. We had outsiders come and give us music, singing and so on. Among the employees we have a war services fund. We all contribute for two weeks a small sum and during the course of the war we have given out close to \$500 to the Red Cross and other war services that have been organized. Also in the store the society has provided in the past three years \$100 as a cigarette fund for members in the war services overseas. We have regularly sent cigarettes each month to these men. About two years ago we purchased a recreation field close to Timmins, the same place we have been renting for the past five years. It is the intention to make this more useful for the employees and members.

Q. All this has been done at the expense of the Society?

A. Yes.

Q. This recreation field is not operated to make a profit? A. No.

Q. Referring to the business, you pay a patronage refund to non-members? A. Yes.

Q. At what rate relatively to the rate paid to members? A. We have paid half of what the member gets.

Q. Is that paid to non-members or only allowed to stand to the member's credit until he has bought his share?

A. When the non-members come and open up an account it is explained to them that their patronage dividend will go

to their share account and as soon as it amounts to \$10, they may become members if they wish.

Q. But they do not automatically become members. You do not make a man a member against his will? A. Absolutely not.

Q. All these stores are located in the mining district? A. Yes.

Q. And I take it that most of these people are miners. Referring to income, you deduct patronage rebates from gross income to determine profit? A. Yes.

Q. Can you amplify what you have said on the second page of the brief concerning the circumstances under which you were assessed for excess profits tax? A. That is in the year 1940. Our taxable income was \$3,990.86 and the Income Tax Inspector was given the ordinary tax that the auditors figured out, and later on we had another assessment for excess profits tax. Not knowing what excess profits mean -- \$3,990 on \$550,000 of business did not seem much -- I wrote to the Income Tax Department asking for an explanation as to why we were taxed for excess profits tax. The explanation he gave was that the amount --

MR. PARKER: Was it by letter?

THE WITNESS: Yes.

MR. MITCHELL: This letter does not refer to that point.

MR. PARKER: I would rather not have the witness put on the record an explanation made by the Income Tax Department unless he puts the letter in.

BY MR. MITCHELL:

Q. Is the letter among the file of correspondence dealing with excess profits? A. All that file pertains to that.

Q. In any event, you were assessed and we have here the original assessment notice sent to you by the Department?
A. Yes.

Q. We might file that as an exhibit, then. You have filed with the Registrar a document which I take it is an assessment notice received by you from the Income Tax Department for the year 1940 for \$400 odd excess profits tax over and above income and excess profits tax which you had paid?
A. That is the assessment notice I received.

BY MR. ARNASON:

Q. Why were you assessed for income tax -- because the amount of business you did with non-members exceeded 20 per cent of the business you did with members?
A. That question has never been raised, what amount of non-member business we had.

Q. You were just taxed?
A. We were taxed for our reserves and any extra depreciation which we set aside, on which we were taxed, and that amounted for 1940 to \$3,990.

BY MR. MITCHELL:

Q. You have not, either here or in your correspondence with the Income Tax Department, the letter telling you why you were assessed? You have the notice?
A. I have copies of the letter in that file regarding taxation.

Q. I will hand you these letters. They are all from the Co-operative Union of Canada relating to certain correspondence they had with the Income Tax Department?

A. We had some correspondence with Mr. Keen.

Q. Refer to your own documents. Mr. Francis tells me you had a letter the other day among those contained in that file of correspondence. It would be pertinent, if you have it.

THE CHAIRMAN: At all events, you never appealed from

the decision to assess you?

THE WITNESS: No sir, we have not.

BY MR. MITCHELL:

Q. Did you have correspondence with the Inspector complaining of the assessment? A. Yes, we did. Most of the correspondence was sent to Mr. Keen to take up with the Income Tax Inspector. I have not the original copies. They are in Mr. Keen's possession, but finally the assessment notice which I have just handed you there came and we decided to pay it off.

Q. Rather than risk costs? A. We had already paid \$25 penalties and interest on that \$400.

Q. In any event, you did have the Co-operative Union take the matter up on your behalf with the Income Tax Inspector in your district? A. Yes.

Q. Are you in the Ottawa district? A. Yes.

Q. You took it up at Ottawa and were ultimately notified that they would not revoke the assessment and that you would have to pay it, and you did receive the final notice, and after some objections to paying it you paid it?

MR. PARKER: My learned friend has made a speech of considerable length in which he has referred to the contents of certain documents. That cannot be helpful to the Commission not that I doubt his summary of it, but it is not helpful.

THE CHAIRMAN: The assessment was made, the tax was paid, and that is the end of it. Correspondence may have been exchanged, but the matter is settled by the fact of the assessment and payment.

BY MR. MITCHELL:

Q. Did you have any written ruling from the Income Tax Department with reference to the deducting of patronage dividends as operating dividends? A. We had a letter from

the Department regarding the assessment of 1942, and this letter. I think you have a copy of that letter on the file also.

THE CHAIRMAN: Produce the letter. Don't let the witness talk about it.

MR. MITCHELL: I produce a copy of the letter.

MR. PARKER: A copy of the letter is no better than a verbal statement.

MR. MITCHELL: Have you the original?

THE WITNESS: No. I sent it to Mr. Keen, and he is ill.

THE CHAIRMAN: Obviously, we are not bound by rules of evidence, but there are some limits.

MR. MITCHELL: Who made the copy? Can you swear as to whether it is a true copy?

THE WITNESS: I do swear.

MR. MITCHELL: Did you make it?

THE WITNESS: Our Secretary in the office, a girl in the office.

MR. MITCHELL: And you say it is a true copy?

THE WITNESS: I can swear it is.

MR. MITCHELL: Read the paragraph that is marked.

THE WITNESS: This pertains to the 1942 income tax returns: "In view of the appeal of certain cooperatives now before the courts it has been decided to defer assessment of your return until further information can be obtained. This is only an opinion and is not to be regarded as final, but there is a distinct possibility -- "

MR. PARKER: That makes it that much worse.

THE WITNESS: " -- that your cooperative will be taxable on its total net profits including patronage dividends or customer rebates. However, this will have to await the

decision of the courts. In the meantime, will you please send me that information requested as soon as possible?"

BY MR. MITCHELL:

Q. Did you receive any further letter telling you you were assessed or not assessed? A. We have not.

Q. That was the end of the correspondence on that matter? A. Yes.

Q. It has left it uncertain in your mind?

MR. PARKER: I am glad my learned friend is a mind reader.

MR. MITCHELL: The letter speaks for itself. I do not like to burden the Commission with repetition, but I do emphasize the point raised by this letter, not because it gives a ruling one way or the other --

THE CHAIRMAN: As far as I am concerned personally, the evidence in the letter is non-existent. I will pay no attention to it. My colleagues may have a different view but I cannot accept as evidence what has been stated.

MR. MITCHELL: The letter was written to the witness and we have produced a copy.

THE CHAIRMAN: Would you be satisfied with that evidence in a court of law?

MR. MITCHELL: If the witness swore that it was a true copy.

THE CHAIRMAN: Such evidence would have been excluded long before this. It is not legal evidence.

MR. MITCHELL: I submit that it is.

THE CHAIRMAN: Very well.

BY MR. PARKER:

Q. Did you prepare the general brief, or had you anything to do with it -- the brief that has been referred to?
A. The general brief?

Q. I am referring to page fifteen of the general brief.

A. I was one of the committee members on that. I gave some information, perhaps.

Q. You are familiar with that paragraph? A. About taxation?

Q. Dealing with excess profits. A. I think so.

Q. Are the facts correctly stated there? Are you prepared to swear to those facts? A. I haven't got the general brief before me.

Q. I will show you the one I mean. Read that paragraph. Read it to yourself first. Are you suggesting that the salaries of employees were subject to taxation?

A. The salaries of employees were added on to the total surplus to arrive at the amount. We were taxed on that \$3,900.

Q. There was no suggestion that your employees' salaries were taxed? A. Employees' salaries, perhaps not.

Q. And your business still got the minimum exemption of \$5,000? A. There is no exemption of \$5,000.

Q. The minimum standard profit of \$5,000. You are allowed to keep that. Come back to the main brief you read this morning. First as to the automatic membership. You are doing a large amount of business with non-members?

A. Yes.

Q. And you do not keep records to find out how much you do with members and non-members? A. No.

Q. Then how do you determine whether the 20 per cent clause applies? A. That question has never arisen with us.

Q. What do you mean by that? You pay taxes anyway.
A. We have paid taxes.

Q. You don't claim exemption? A. No. We never claimed exemption on reserves or extra depreciation.

Q. On what have you been paying income tax?

A. We are paying income tax on anything we don't distribute to customers.

Q. After you arrive at the difference between your revenues and cost, the surplus is about how much? What was it last year? A. For 1944 I haven't got the figures.

Q. Take 1943, then. A. There was \$8,900.

Q. What did you do with that \$8,900? A. We distributed it.

Q. I don't want the exact figure. A. In 1943, as I recall, we distributed the total amount.

Q. To whom? A. To our customers.

Q. Customers or members? A. To our patrons; that includes members and non-members.

Q. All on the same basis? A. No. Non-members get half of what the members get.

Q. I understand that the members do not always turn in their checks? A. Yes.

Q. How did you determine the amount paid to the member who did not turn in his check? A. Those members, or non-members --

Q. I am talking about members. A. Those who don't turn in their coupons we don't pay any dividends to.

Q. They do not get anything? A. No.

Q. So that they do not share in this? A. No.

Q. And as to those who do keep their checks and turn them in, how do you arrive at the percentage you give them? A. It has generally been a percentage left over as savings. Supposing it is 2 per cent over all, the members have been

paid that 2 per cent, distributed on the basis of what they brought in.

Q. And the non-members get half of that? A. Yes.

Q. And those members who are not careful enough to bring in their checks do not get any? A. That is right.

Q. So that is scarcely a distribution in proportion to the amount of business done by each? A. Pardon me?

Q. I say it is not distributing the funds among all the members on the basis of the business they do with the corporation? A. Not entirely. We do distribute savings. In general we have been distributing savings in proportion to what business they do with the Society.

Q. But there is a large number of them who do not participate at all? A. Yes.

Q. Why do you not keep a record? A. It would be a very costly affair.

Q. Is that the reason why it is not done? A. That is the main reason.

Q. How do you arrive at the \$8,000? What do you deduct by way of cost? A. Our operating expenses.

Q. And educational fund? A. Yes.

Q. And some reserve? A. Yes.

Q. Out of gross profits what percentage do you deduct for reserves? A. We don't deduct reserves out of gross profits.

Q. You deduct some out of the \$8,000? A. I can't answer that.

Q. The figures are not important. Suppose you had a gross earning of \$20,000; you set aside a certain portion of that for reserves first. A. Generally, yes.

Q. About how much in 1943? A. In 1943 we did not set aside any.

Q. Ordinarily you do? A. Previous to 1940.

Q. On what basis do you set aside these reserves -- 10 per cent, 5 per cent or what? A. 20 per cent.

Q. 20 per cent of gross earnings you set aside as reserve? A. Yes.

Q. And 5 per cent for educational fund? A. Yes.

Q. And the accumulation of these 20 per cents would represent how much money in the hands of the cooperatives? A. \$17,000.

Q. I mean your total all through the years, accumulated through the years? A. \$17,000.

Q. It is on that basis that you work out the amount you pay back to your members and shareholders after deducting these two reserves, educational and general reserve?

A. What we distributed back?

Q. After you deduct from gross profits your general reserves and educational reserve, then you distribute what you have left back to your members on the basis you state?

A. That is right.

Q. And it is out of that educational fund that you pay for all this community work that you were telling us about, or do you take further funds out of the exchequer to pay for it? A. Our educational director was on our full-time employee list.

Q. All this educational work has been charged into general operating expenses? A. Not all of it.

Q. A share of it? A. Sometimes we over-ran the amount of 5 per cent allowed.

Q. And then you take general funds to make up the difference? A. Yes.

Q. Do you consider that a proper operating expense?

A. Not directly as operating expense, but it has been approved by the members.

Q. But it is just like paying your bookkeeper or your telephone bill; it all comes under general expense, this money that you have been spending on community enterprises? A. Yes.

Q. When the non-member starts buying how does he become a member? A. The non-member generally opens up an account and we try to explain thoroughly the operations of the Society. We explain that there is a certain saving left over and the non-member will be entitled to half of what the member gets.

Q. In other words, you canvass him to be a member. A. Yes, in a way we do.

Q. And of necessity you keep a little of his overcharge until these overcharges amount to \$10? A. Ten dollars is the share.

Q. And having arrived at that amount which stands to his credit, what do you give him? A. We issue a share.

Q. Whether he asks you or not? A. It has been explained to him.

Q. But is it issued to him whether he asks you or not? A. We generally don't ask him.

Q. You just issue it and send it to him? A. Yes.

Q. And unless he fires it back at you he becomes a member? A. Yes.

Q. And very few of them refuse to accept the certificate? A. No.

Q. Do you know of any such cases? A. There was one during my time.

Q. On page two of the brief you say that the cooperative

service of Toronto has always followed the depreciation rate allowed by the income tax regulations. Do you know what that is? A. On different things it is more. On a building of this type we get 2-1/2 per cent.

Q. One question with regard to something that appears at the bottom of page one of the brief. You are quoting from the price spreads report on the bottom of page one.

A. That is the general brief you are referring to?

Q. The one that Mr. Mitchell read. Have you got it?

A. Yes.

Q. You assisted in the preparation of it? A. I am a party to it.

Q. Have you any knowledge of it so that you can verify the facts stated? A. No.

THE CHAIRMAN: Are you talking about the same document?

MR. PARKER: I am referring to the brief that Mr. Mitchell read.

THE WITNESS: The other one I read is here. The Urban Consumers Co-operative Society is the one that Mr. Mitchell read.

BY MR. PARKER:

Q. Will you look at page one of the brief submitted on behalf of the Urban Consumer Co-operatives in the province of Ontario. I quote the following from the bottom of page one: "Furthermore, the report says later on that, 'While the cooperative movement in its operations asks no special privileges, it has a right to demand fair and equitable treatment from government and private enterprises'." I take it that is quoted with your approval. That is the position the cooperatives are in; you do not want any special privileges? A. No.

Q. Do you not consider it a special privilege that you are exempted from taxation in the way you are? Is not that a special privilege? A. No. We feel that we should not be taxed on purchase rebates.

Q. Why? A. Because it is a direct saving by the customers in their purchases, very much as in the case of a discount received from an ordinary company.

Q. That is what you mean by not asking for special favours? A. Yes.

Q. And I take it you assume that you have been unfairly treated by being compelled to pay these taxes on excess profits which you have paid? A. No. On the amounts we have paid which I have explained, that is unfair; but on the amounts we have paid previously, I don't think that is unfair.

Q. If you are not making any profit I do not see why you should be paying any tax willingly. A. I don't follow your question, sir.

Q. All right; I will not press it.

BY MR. ARNASON:

Q. Do you have any transient trade? A. Yes, quite a lot, especially in the Timmins store.

Q. Could you estimate what percentage that would be of the total over-all business? A. It varies a great deal. In the first years our transient trade was quite high. We had 52 members who organized the Society and the sales the first month were over \$7,000. Fifty-two members could not use that amount of merchandise.

Q. Is the fact that you do not keep detailed records of all transactions of both members and non-members with the Society explained in part by the amount of transient trade you have? A. Partly, yes, sir.

Q. Do you think it would be costly to instal a book-keeping system which would enable you to keep records of your resident customers? A. We have thought of that and figured it is too costly to do it.

THE CHAIRMAN: You are satisfied that the trade will run over 20 per cent of the total?

THE WITNESS: I think so.

THE CHAIRMAN: And that is why you do not keep any more accurate record of your business?

THE WITNESS: Not necessarily.

BY MR. ELLIOTT:

Q. On page two of your brief you say that in 1941 and in subsequent years the whole surplus has been distributed. By "distributed" do you mean actually paid out, or partly paid out and partly apportioned? A. Since 1940 we have allocated any member who had ten shares or more into the revolving fund.

Q. So that "distributed" means allocated? A. That is right.

Q. With regard to the loans that you mention on page one of your brief you say that a portion of the capital required for the purposes of the Society was obtained from members' loans. How does the Society obtain these loans?

A. When we started it was a matter of \$1,260. As I recall, one loan was made only on a note signed to another member for a considerable amount, and there are several others who gave \$100 and \$50 to increase that.

Q. And those were voluntary loans from members? There was nothing requiring each member to subscribe? A. It was entirely voluntary.

Q. These loans were retired after a time, or have you

still loans? A. We have still loans. From memory, we have around \$35,000.

Q. Do you pay interest on the loans? A. Yes.

Q. At what rate? A. Six per cent. We pay 3 per cent and 6 per cent; we have two different rates. Those that are on short term, callable loans, and larger than \$500. The rate is generally 3 per cent.

Q. And with respect to the 3 per cent loans, the members may withdraw by giving you short notice?

A. Just by asking for it.

Q. And the other loans? A. They are generally on longer terms; ninety-day notice is asked for as the minimum. We ask for a longer time if possible.

Q. All these loans are from members only? A. Yes.

Q. Is it your experience that you can finance to a considerable extent on such loans? A. Yes. We built a modern building in Timmins after the fire. We had close to \$50,000 in loans from members.

Q. Do these loans fluctuate much from month to month and year to year? A. Very little.

BY MR. VAUGHAN:

Q. On page one of the brief you emphasize certain community enterprises sponsored by the Society. Among those enterprises I see that you provide funds for cigarettes for the boys overseas. Are similar funds provided by any other organizations in your town? A. There are such funds. The Canadian Legion have a regular fund.

Q. So that you are not the only society that does that? A. Only as far as operating a grocery retail store is concerned. I think we are.

Q. Are you sure of that? A. I can't testify to that

as a fact.

Q. We can assume that other companies are doing the same, and the employees of other companies? A. Yes.

Q. There is nothing unusual about that? You say you have employees and other war service groups. Are there not other groups of the same kind? A. There are.

Q. You say you have provided recreation for your patrons. You have a summer recreation field. Is the same recreation provided by other organizations up there? A. Not in Timmins that I know of.

THE CHAIRMAN: Do not any of the mines provide recreation grounds?

THE WITNESS: They have a field day at McIntyre, very good grounds. They generally have a field day once a year.

BY MR. VAUGHAN:

Q. And isn't the field available throughout the year whenever the weather is favourable? A. For employees, yes.

Q. Isn't that the same thing? A. I am not arguing that point.

Q. You say you provide a summer recreation field for the use of patrons? A. Yes, for patrons.

Q. Do they not allow their field to be used by their employees and probably anybody else who wishes to use it?

A. I cannot see how the McIntyre mine can be shown to be the same as a consumer's cooperative.

Q. Perhaps they allow anybody to use the field?

A. Generally the whole town of Timmins pretty well uses it.

Q. Isn't that going further than you say you do? You say you provide a field for your patrons? A. Yes.

Q. There is nothing to that point, is there? Are there

any other choirs of the kind you speak of? A. Not that I know of; I do not know of any in that district.

Q. Are there any social evenings held for elderly people, other than yours? A. I think there are different societies who hold social evenings, possibly every evening.

Q. The point is that while you are doing these things you are actually admitting that you are not the only ones who do them. You mention also that these things are done at the expense of the Society? A. Yes.

Q. Do you mean that it is done out of surplus that is not taxed? A. This amount is not⁺taxed, no.

Q. It is all done out of surplus that is not taxed? A. Yes.

Q. On page one of the brief submitted by the Urban Consumer Co-operatives this statement is quoted from the price spreads report: "It is our opinion that further development of consumers' cooperatives in Canada would be of general benefit." Is there anything in the price spreads report to indicate that such further development should be without taxation? Is there any reference at all to taxation?

A. I have not read the price spreads report. I am a party to the brief in which that statement is quoted; I am a party to some parts of it but not to that particular part.

Q. There are many others who are in favour of the co-operative movement; in fact, there are very few I know of who are opposed to it; but there is one point that is frequently made -- I am not speaking for myself -- and that is that there are certain groups who are opposed to co-operatives without taxation. That is a point that arises. You also say in the same brief in which that quotation appears -- in fact, it forms a part of the statement that is quoted from the price spreads report: "The informed consumer

is in himself the most valuable check on excessive prices and poor quality." Is the consumer in a cooperative any better informed than the consumer who purchases from a non-cooperative store? Take your own town for example.

A. To this extent, for instance, that a great deal of education is being carried out this year by different co-operative societies.

Q. Do you not think that every housewife knows prices and the quality of different goods? She is a good shopper and she knows what she is doing.

A. Not every housewife.

Q. Perhaps not all, but most of them.

A. I would not say what percentage.

Q. But does that apply any more to shopping in co-operatives than to shopping in a regular store?

A. As to the housewife buying, no; I don't think so.

Q. Then both are the same?

A. Not necessarily. A private company is selling goods, I imagine, or at least I am led to believe, for profit. They want to sell what they have.

Q. And do you not want to sell at the same price?

A. My instructions from our members originally when we started was to buy the best and try to get it as cheap as we could.

Q. Your competitors in your town would say that too, would they not -- that they buy to the best advantage and try to do the best they can for their customers? You say that a private store operates for profit?

A. I think so.

Q. How do your prices compare with the private store in your own town?

A. We have made comparisons. When Eatons were operating there we made tests and ours were very favourable.

Q. You sell at the same price, generally speaking?

A. Yes.

Q. You have a margin between your cost and selling price the same as any other store -- the same margin possibly? A. Very likely we have.

Q. Then why do you say that one operates at a profit any more than the other? A. Why do I say that one operates for a profit? I don't think they operate for their health. They have to get something for their money when they invest it.

Q. Does not that apply to the cooperative? Do they do it for their health? A. But the members own it.

Q. They do not get their savings back? A. They get savings back on their purchases, not on investment.

Q. I do not intend to develop that point. That is not the point I started out with. The point I started with was whether the consumer is in one case better informed than the consumer in the other. You refer here to regulated prices. Prices are pretty well regulated at the present time. The cooperatives have no influence on prices? A. While we give a maximum price that does not deny us selling for less than the maximum.

Q. You say you sell at the same price as the other people? A. Pretty well, the market price; but there are thousands of things we have and we cannot check thoroughly.

Q. The point is that you really follow the prices in the town? A. We never go to a store to see what prices they sell at. We try to get informed so as to be on the safe side and return the remainder.

Q. You have enough information to know that you are selling at approximately the same prices? A. In the general run we do, pretty well.

Q. Would you not say that the other stores are regulating your prices? A. No, I would not say that.

Q. You have information as to what the other stores are selling at? A. No. Generally we don't make any effort to find out what prices of other stores are.

Q. But you say that in a general way you collect information. A. We have made tests once in a while.

Q. You make sure then that your prices are no higher? A. We have 1,200 members and 1,200 members do not all think the same. There is always some grouch who says that everything is not exactly right. I am not quite sure of all these things and we have to make some test to see if on certain items we are too high. That applies to any other business.

Q. You make tests to see if your prices are all right compared to other prices in town. Is that it? A. To see if our price is all right in comparison with the other stores? That has never entered our minds, to set our prices on the basis of what the other stores are doing. We try to be as low as possible and I personally check advertising once in a while. Every week, as a matter of fact, several stores advertise.

Q. But you must make a test for the purpose of seeing that your prices are in proper relation to others?

A. We want to know what the market conditions are in all these things and whether we are being overcharged by the wholesales or suppliers.

Q. But you actually make tests to see if your prices are right compared to others? A. Yes.

Q. Would you say that you were regulating the price of other stores or other stores were regulating your prices?

A. I would not say other stores are regulating our prices to any great extent. The market conditions regulate, and

our expenses regulate our prices.

Q. Is that true? Do you fix your prices according to your expenses? A. According to our operating expense. We have to cover that, yes.

Q. But suppose your expenses are extremely low; do you fix your selling price accordingly? A. We have never had it extremely low.

Q. Your expenses are lower than in the ordinary store. It was claimed in briefs before that the expenses of co-operatives were lower. Does that apply in your store? A. I do not claim that in my paper.

Q. No, but it has been claimed. A. I have no figures of other stores.

Q. You know whether your expenses are lower than those of any other stores? A. Not in Timmins.

Q. Do you think they are higher? A. Expenses?

Q. Yes. A. I don't know that either. I don't get their financial statements or their operating statements.

Q. You say you fix your prices according to expenses and your expenses are approximately the same? A. From year to year?

Q. Yes. A. Very much so.

Q. You said you regulate your prices according to expenses. If the expenses are the same then your selling price would be the same? A. In keeping with the markets. We increase or decrease with the markets.

Q. What would you say with regard to any statement to the effect that cooperatives regulate the prices of other stores? A. Perhaps I can answer the question in this way. We get a monthly report from the Department of Labour of the Dominion Government. I check prices, average prices,

which are given there and I do find, in meats especially, not so much in the last two or three years but prior to that, that in Timmins we are generally lower than in Toronto where we get lots of meat, lower than in Sudbury, lower than in North Bay and lower than in some of the districts where the beef is grown. We have three co-operatives in Timmins; North Bay has none, Sudbury has none, and for the size of the city of Toronto, with over a million of population, it has only two small cooperatives. I think we have some influence over these prices. That is what makes me think we have.

Q. Of course, that is just our opinion? A. That is my opinion only.

Q. You say: "Again, where consumer cooperatives are well developed, they act as checks on unfair practices directed against consumers (that is, adulteration of goods, short weighing, misrepresentations in grading and advertising)." Is there not some city or government department that checks short weighing? Are there not Government inspectors doing that all the time? A. Yes; there is such a department in a city. It is under the Dominion Government.

Q. Well, they make regular inspections, do they not? A. Yes.

Q. And there is a law providing a penalty for violation? A. I believe so.

Q. Why then do you say that you are the ones that put a stop to these practices? A. As I recall reading the newspapers when the price spreads investigation was on, it appeared that many of the big chain stores were doing that and making a thorough job of it. We are prohibited by our members from doing that.

Q. Does that say that you checked that practice? That is what you say in your brief. A. I think in a general way we have.

Q. It would be hard to substantiate that where there are Government inspectors appointed? A. These inspectors come only once a year.

Q. But there is a legal penalty and the customers themselves do a certain amount of checking. You also speak of employee-privileges granted by your cooperative. Are there more privileges granted? Are your wages any better? A. What report are you referring to?

Q. You will find it in the first brief. A. I can answer that on our part. We were the first to sponsor shorter hours in Timmins. The stores used to stay open. I remember the chain stores. The employees we hired from the chain stores told me that they used to work up to one and two o'clock in the night, or rather on Sunday morning, after Saturday's rush of business. Our Society has never kept its stores open longer than nine o'clock and we shortened the hours, so that now it is six o'clock -- from seven o'clock to six. It is five-thirty every day except on Saturday, six o'clock.

Q. And other stores do the same? A. They have changed, but it is only a year now since they changed to this practice. The fact is that we took the lead. We did that for three years before the other stores did it.

Q. Did you ever hear of cooperative stores following non-cooperatives in the way of hours? A. Perhaps they have.

Q. Does it not work both ways then? You stress your good wages. Are your wages any better than the wages paid in

other stores? A. Yes. I am told by some employees we have hired from other stores that their starting wage with us was higher than they received from the other store where they had worked for several years.

Q. That is the extent of your knowledge -- what your employees have told you? A. Yes.

Q. Do other stores give sick benefits, sick pay and summer holidays? A. Not to my knowledge, with the exception of one other cooperative store in Timmins.

Q. Not to your knowledge, you say; do you actually know? A. I don't know.

Q. You point all this out as privileges granted by your store and you do not know about other stores?

A. I can definitely say that there is a good margin of private stores in Timmins that do not give holidays to employees with the exception of that one week's holiday they have today, which they must give by the Ontario Statutes.

Q. And you give holidays in all your stores?

A. Right from the start in 1931 -- one week for the first year, ten days for the second, and two weeks, which is our limit.

Q. Some others do the same as you do? A. Yes.
There is one cooperative store that does that.

Q. But outside the cooperatives? A. There may be.

Q. But you do not know? A. Not definitely.

BY MR. NADEAU:

Q. I understand that you have ceased paying interest on share capital? A. Yes.

Q. When did that take place? A. In the later years; I believe it was 1940.

Q. Can you give the reasons why your shareholders

waived their right to interest on their shares?

A. There is no specific reason. It was brought up at a shareholders' meeting. The Society had to pay, on 30 cents interest they were receiving, income tax of practically 40 per cent, and then there were only small amounts, 30 cents and 60 cents to each member. One of the inspectors of income tax, referring to us at one time, said that we were not a proper cooperative, that we paid interest on our shares, so we brought that up at the meeting and they voted not to pay so that we would become a thorough cooperative.

Q. You have a by-law to that effect? A. I can't swear there is.

Q. You have a by-law that states that your Society has to pay interest on its shares? A. Yes.

Q. Do you contemplate redeeming your shares in the future? A. As regards those members who leave the community, we have helped them in transferring shares to others. We are not permitted by the Companies Statute to take those shares.

Q. Is there any limitation on the number of shares a member may hold? A. In the by-law? No; but we have as a practice an understanding that ten shares are enough. Previous to that it was fifty.

Q. So that there is no member who owns more than ten shares? A. Previous to the last three years we had fifty shares as a limit. There are few that have fifty.

BY MR. ARNASON:

Q. I notice in your brief you state that during the period in which your Society has been operating, \$109,100 has been paid or allocated to members' accounts as patronage rebates, and of this amount \$51,000 has been paid in cash?

A. That is right.

Q. Do you think that the distribution of these patronage dividends, either in cash or on an allocated basis, has had an influence on the general price level of the commodities which your Society distributes in Timmins? Put it another way. Has the general knowledge that your Society distributes patronage dividends exercised some influence on prices charged for goods by your competitors? I know it is a difficult question to answer. A. To answer that I would say this. I feel that the amount they get at the end of the year would not influence all the prices of a private store a great deal. I don't think so.

Q. Would it to some extent? A. Yes, perhaps to a degree.

Q. Can you make any comparison between the price levels that prevailed at Timmins after your Society was organized and those that prevailed before its organization? A. It would be only hearsay. It was in 1927 that I went to Timmins so I would not venture to say anything in that regard.

Q. Your members are satisfied that the Society charges current prices in the expectation of being able to reap the benefits in the way of rebates? A. I think so.

BY MR. MITCHELL:

Q. With your permission, Mr. Chairman, I should like to put one question that has been left a little in the air as a result of the examination by Mr. Parker. It has to do with the reserves that were set aside by the Society. You state that the general reserve of 20 per cent of earnings and an educational reserve of 5 per cent are set aside. I do not think it was quite clear whether the 20 per cent and

the 5 per cent were calculated on gross earnings or net earnings. Will you tell us which is correct? A. The 20 per cent is calculated on the net savings.

Q. You take your gross and deduct ordinary business expenses, salaries, rent and so on, and what is left is net? A. Yes.

Q. And it is on that sum that the 20 per cent and the 5 per cent are calculated? A. Yes.

MR. PARKER: So that the record will be clear, I may say that later our Accountant will make an analysis of the excess profits question which was raised in the brief. It is not worthwhile placing evidence on the record at the moment. A copy of any statement filed will be sent you.

MR. MITCHELL: That concludes this brief.

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MR. PARKER: The next brief will be presented by Mr. Vincent Price, K. C., on behalf of the Canadian Seed Trade Association.

MR. VINCENT PRICE: Mr. Chairman and members of the Commission, I am presenting this submission on behalf of the Canadian Seed Trade Association and I have with me Mr. R. C. Steele, President of the Association, who will be glad, if the Commission wishes, to give any further information which may be relevant, arising out of the brief.

Perhaps before reading the brief I might make one or two short observations. The Canadian Seed Trade Association consists of fifty-seven members scattered across Canada representing all the major firms in the business of collecting and distributing seeds. The Board of Directors has approved of this brief and I am advised that it has been submitted to a general meeting of the Association and has met with the approval of the Association as a whole. I might

add this. I understand that there are three cooperative members in the Association or three who bear the name of cooperatives, and no objection has been received from any of these three members. In fact, I am instructed that one of the members has endorsed the brief -- one of the cooperative members.

Mr. Chairman and gentlemen, I should say that this submission, primarily at least, relates solely to Clause (c) of the order in council in which are set out the terms of reference to this Commission. That is to say, all we are dealing with in this brief is the comparative position in relation to taxation under the two acts of persons engaged in any line of business in direct competition with the cooperatives, and also as to what may be considered by the Commission a just, fair and equitable basis for the application of the Income War Tax Act and the Excess Profits Act for cooperatives.

I also wish to say to the Commission, before reading the brief, that it has been presented on the assumption that at this stage of the inquiry the Commission has had very extensive evidence as to cooperatives generally, and evidence as to what constitutes a true, in contradistinction to what has been termed an alleged, cooperative; the building up of large reserves or surpluses tax-free; the use which has been made of these reserves; the expansion of cooperations; the acquisition of new plants in competition with private enterprise, and so forth.

The brief is premised on the assumption that there is now before the Commission extensive evidence, given at various points across Canada and here, with respect to all these factors including the payment of patronage dividends,

business with non-members, reserves which in some cases are not allocated to members and which are used in the way I suggest. It is also based on the premise of similarity of operations. That has been brought out in the evidence presented in various cases that have come before the Commission.

I should say that the main purpose of the Commission is twofold: first of all, to place before the Commission, on the one hand, the extensive, complete and comprehensive service which is rendered in this very important industry to the seed business by the ordinary joint stock company and private enterprise as compared with the very limited service rendered by cooperatives engaged in the undertaking; and, in the second place, to point out to the Commission what I might describe as the hardships and handicaps under which private enterprise and joint stock companies operate in view of what we submit is the very preferred tax position which the cooperatives enjoy.

With that introductory statement, may I turn to the brief itself. We are not concerned to any considerable extent in grain seed. We are concerned with field seed, garden seeds and root seeds, field seed being the forage grasses and alfalfa, clovers and all seeds usually classed with forage grasses. That comes under the general classification of field seed, garden seed being all the ordinary vegetable seeds and flower seeds, and root seeds being turnips and similar produce. The brief reads:

"The Seed Trade:

"The Canadian Seed Trade Association has been in existence for over twenty years and has a membership of over fifty seed firms operating all across Canada and in all lines -- field, garden and root seeds.

"Practically all the major seed firms of the country are members of the Association.

"These firms are interested in purchasing all varieties of these seeds from growers and country dealers, assembling, cleaning, grading and packing this raw material, supplying the domestic trade and also, in favourable seasons, finding a substantial export outlet for various surpluses.

"These firms also import a great many lines of seed not grown or not available in sufficient quantity in Canada and offer it to the domestic trade. Many of these lines, it might be mentioned, are essential to market gardeners and others, but because of the shortness of our season they will not mature seed satisfactorily in this country.

"Production and distribution of clean, high quality seed are generally recognized as the very foundation of agriculture.

"In a great many cases, and especially so with clover seed, grass seed, root, vegetable and flower seed, this material is usually grown in special, limited districts where the climate is favourable and growers have developed special skill and use special equipment.

"The average farmer, market gardener or amateur gardener does not, and often could not, save and mature this seed. He is interested in producing hay or pasture for live stock, vegetables for human consumption, and flowers for pleasure. In such cases no seed is produced.

"For that commodity he depends upon the seed trade to locate seed in Canada and abroad suitable to our conditions of soil and climate, to assemble this seed, clean it to government grades, put it up in packages suited to the

wholesale and retail trade and to have it ready for retail distribution every season well in advance of actual seeding time.

"At a Disadvantage:

"The Canadian Seed Trade Association is not opposed to cooperatives. The Association, however, is of the opinion that it is unfair to private enterprise to exempt cooperatives from any forms of taxation that privately-owned competitors must bear. Such a policy -

"1. Threatens to restrict the variety and supply of seeds offered the Canadian consumers, and the development of new markets, both domestic and export, for Canadian seed.

"2. Defeats any possibility of the general public accurately appraising the extent of the services rendered by, and the respective values of, the two types of organizations.

"3. Relieves entirely cooperatives from their share of the governmental costs for which taxes are imposed.

"4. Results in the privately-owned companies bearing the cooperative share of necessary taxation, as well as their own share.

"5. Leads to the expansion and increase in the number of tax-free cooperatives, thus shrinking the taxable field and throwing increased burden on the privately-owned companies.

"6. Enables the cooperatives to build up substantially tax-free reserves and surpluses and thereby to establish uneconomical handling costs which private business cannot do; and finally

"7. Imperils the existence of the privately-owned company.

"Handling Charges:

"Certain cooperatives have made claims of absurdly low and uneconomical handling charges. For example, one western cooperative claims a cost 'of less than one-fifth of a cent a bushel to the producer.'

"There is no elaboration of this charge...."

That is, the handling. Continuing:

"There is no elaboration of this charge and the public is left to assume that this is the entire overhead. Actually, of course, a bag of seed could not be untied and tied up again at this cost, whereas under the heading of handling charges the seed house must in the case of field seed grown in Canada -- that is clover, grain and grass seed -- carry out the following operations:

"A. Locate raw supplies in the hands of growers and country dealers.

"B. Assemble this at central points.

"C. Put it through cleaning machinery to remove weed and other foreign seeds, dirt, chaff, etc.

"D. Have it graded and government inspected.

"E. Repackage it.

"F. Find a market for it among non-seed growing farmers in Canada and outside the country.

"Working Capital Depleted:

"Members of the same cooperative mentioned, at the recent annual meeting of their organization, advocated the deduction of 5 per cent of total sales for the provision of working capital, handling charges, etc.

"The setting aside of 5 per cent of sales would, in the case of field seeds such as clovers and grasses, which this cooperative handles most exclusively, run into substantial amounts of money. This puts the cooperatives in a very privileged position and they contribute nothing to the country's taxes.

"The dissatisfaction with low prices for seeds during the depression period following 1929 led to the formation of a number of cooperatives. During this period private enterprise was working on narrow margins and the return on money invested was small, leaving little if anything for reserves or for new capital. Since 1940 the high taxes have made it impossible for private seed enterprises to set aside adequate reserves, and cooperatives being exempt from income and excess profit taxes are jeopardizing the successful operation of private enterprise."

May I pause here for a moment to refer to a rather striking instance which has come in from a member of this association and has been handed me recently, and which I ask the privilege of referring to because it illustrates the very point made in that paragraph.

MR. FRANCIS: I hesitate to interrupt but I assume that the person who has provided the information will be available for cross-examination.

MR. PRICE: Not the individual who wrote in this particular instance. The President of the Association will be here to state that he received it and that the member, who lives a considerable distance from this city, has sent it in as information.

THE CHAIRMAN: That has been done on previous occasion.

MR. FRANCIS: Surely it is hearsay.

THE CHAIRMAN: Undoubtedly; but we have had any amount of hearsay and not only from one side, Mr. Francis.

MR. FRANCIS: May I with respect point out that the same sort of evidence was ruled out this morning?

THE CHAIRMAN: We may do the same with this; we have not heard it yet.

MR. FRANCIS: Thank you, my Lord.

THE CHAIRMAN: Continue, Mr. Price.

MR. PRICE: This is a statement from a member of the Association sent to the President recently and which he asked to have brought to the attention of the Commission. I can state it in my own words or I can read from his letter one paragraph which explains the situation. If the Board is ready to hear this as a striking illustration of the point I am making in this brief, namely, the handicap in the matter of reserves for expansion of private enterprise as compared with cooperative activities, I shall be glad to read it, because it is relevant.

THE CHAIRMAN: Show it to Mr. Parker and take his advice as to admissibility. Meanwhile you can go on with the brief. We are rather pressed for time.

MR. PRICE: To continue:

"Depend on Private Industry for Complete Service:

"Private enterprise has given complete service in assembling, processing and distributing garden and field seeds, while the service provided by cooperatives has been limited. In some districts they have assembled seed and sold it to privately-owned seed houses or exporters who took care of the final distribution; in other cases, cooperatives have concerned themselves only with

farm distribution; that is, collective buying of seed stock for their local members. In no case have they given the comprehensive service provided by Canadian seed houses doing a national business.

"By a comprehensive service is understood the following:

"Field Seeds:

"1. Purchase of raw, ungraded field seed from farmers and growers in special districts of Canada where climate and soil favour surplus production of clovers, grasses, grain, etc.

"2. Assembling, cleaning and grading this seed and thereby making it available for domestic and export consumption.

"3. Supplying the domestic market everywhere in Canada with this seed.

"4. Finding an export market for any surplus through international contacts.

"5. Locating and importing foreign supplies to supplement natural and seasonal shortages. (In some years Canada must import very large quantities of red clover, timothy and other grass seed because of failure in this country, and in some lines Canada does not always grow sufficient seed to meet domestic demands).

"Garden and Root Seeds:

"1. Purchase whatever supplies are grown in the limited garden seed areas of the country for domestic and export distribution.

"2. Import large quantities of vegetable seeds suitable for Canadian conditions from California,

Great Britain, Europe, etc., for distribution to Canadian markets and amateur gardeners in bulk and in low-priced packets.

"3. By domestic purchase and importing, assemble seed of various varieties of grasses and blend these for the domestic trade for lawns, golf greens, mixtures, etc.

"4. Import a complete range of flower seeds, with the exception of the few lines that can be grown to maturity in Canada, and make these available in cheap packets to the general public all across the Dominion.

"All these services are performed by every major, privately-owned seed company -- no cooperative attempts to provide more than a small portion of them.

"Canadian seed firms have been progressive and successful in obtaining markets for all seed that Canada can produce economically. In times of scarcity of seed for Canadian use they have supplemented home production by imports and have supplied gardeners and farmers in all parts of Canada with adequate and dependable supplies, especially suited to Canadian climate, soils and other conditions.

"Such service necessitates a substantial overhead, with warehouses strategically located, a large staff of highly skilled personnel, connections in other countries, and much special equipment. To continue this complete service at a moderate cost to consumers in both town and country, the privately-owned seed firm must continue to participate in those limited but important lines which the cooperatives are handling. These lines are essential in supporting the fixed overhead and operating costs of the seed trade as a whole.

"The Canadian Seed Trade Association has no desire to see the cooperatives eliminated from this or any other field; they believe that both cooperatives and private companies can play a useful part in the industry. What the Association asks is that the present tax burden be distributed evenly so that both types of organization can continue to operate on an equal basis.

MR. PARKER: I have seen the letter and my personal view is that it neither hurts Mr. Francis nor assists Mr. Price. It is immaterial. That is my own view.

THE CHAIRMAN: I see Mr. Francis smiling; I suppose the objection is withdrawn.

MR. FRANCIS: Yes, my Lord, on the assumption that my learned friend's opinion is sound, as it usually is.

THE CHAIRMAN: That is a safe assumption.

MR. FRANCIS: Oh yes, sir. It is a fair assumption.

MR. PRICE: This is a statement from one of the members as to the handicap he is under:

"Concerning private enterprise in the seed business may we bring up a point that has considerable bearing on those who are shaping up an industry in the production of flower seeds for Canada. We have in mind now our own position. For several seasons we have exported to California quite some volume of flower seeds. To be exact, our Canadian and export business in three years has grown to approximately \$50,000 from less than \$1,000 per year." I am not clear whether he means \$50,000 in one year or three years, but I suppose it is \$50,000 over a period of three years. The letter goes on: "Now whilst we could do much to step further forward, to a large extent we are denied that right by taxation. As we all know it is almost impossible to build

up reserve capital under conditions as they are, yet to develop this business, which is, it will be agreed, an asset to our country, we are permitted no special consideration. Would it not be wise to make this comparison to the position of seed cooperatives, and should we as private enterprise not be allowed some tax exemption consideration in order to assist us to further develop an industry that up until now has never amounted to very much?" That is purely a minor example of the sort of thing which was referred to, applicable to both export and domestic business.

MR. PARKER: I think my opinion has been justified.

MR. FRANCIS: I concur.

R. C. STEELE,

President,
Canadian Seed Trade Association,
having been duly sworn
testified as follows:

BY MR. PRICE:

Q. You are President of the Canadian Seed Trade Association? A. Yes.

Q. You heard the brief which I have read? A. Yes.

Q. You had some share or participation in the preparation of it? A. Yes. It was prepared by the directors of the Association.

Q. Approved by the directors? A. Approved by the directors, and it came before the Association and was approved by the Association.

BY MR. PARKER:

Q. You are familiar with the details of the brief?
A. Yes.

Q. Are you prepared to say that all the facts alleged in it are within your personal knowledge? A. I believe so.

Q. You believe they are within your personal knowledge?

A. Yes.

Q. As I gather from the brief as a whole, it is an argument, supported by facts, to this effect: that the independent seed people occupy a very wide field, serving all three branches mentioned there, field, garden and root seeds, whereas the cooperatives are occupying only a very small part of the field, perhaps the choicest part, so to speak, and are not supplying the wide service you are?

A. Yes.

Q. That is the sum and substance of it? A. Yes.

Q. What information have you that you can give to the Commission as to how narrow the field is that the cooperatives operate in? Why do you make that general statement?

A. In vegetable and flower seeds the province of British Columbia grows extensively, Most of our seed production in Canada comes from British Columbia. They are what you would term producers. They sell to seed houses in Canada and outside they do an export business, but they do not attempt to package that seed so that it can go to the public. They do not attempt to retail it; they are simply producers.

Q. I do not follow you. Whom do you mean by "they"?

A. The cooperatives in British Columbia. There is a large cooperative in British Columbia, with a number of growers, which deals in the production of garden seed, but they do not attempt to distribute it.

Q. Have you any information to lead you to believe that they will not in future? A. They may.

Q. They are only young? A. They may possibly, but I am stating the position as it stands.

Q. That they do not distribute? A. They do not

distribute to the final buyer.

Q. They distribute to the independent? A. No, the wholesaler or retailer.

Q. Or the individual? A. Or the individual who might go to them, I assume.

Q. Is not that a reasonably wide field of distribution? A. No. Suppose you went into a store in any village in Canada, you could buy seed packaged by the trade but not seed packaged by any cooperative.

Q. As regards this letter from which you have read, I have a suspicion that Mr. Francis may want to ask a question or two. Is my learned friend putting this letter in? Does he wish to withhold the name of the man who made that statement?

THE CHAIRMAN: Did you read it into the record?

MR. PRICE: I read it, but I have not the authority to disclose the name. The writer is a member of the Association.

THE CHAIRMAN: It has been read into the record.

BY MR. PARKER:

Q. Was this letter handed to Mr. Price by yourself?

A. Yes.

Q. And you are incorporating the contents of the letter in your brief as an additional argument or illustration?

A. As an illustration.

Q. And in the very illustration you use, while complaining of the system of building up reserves, which is valuable to the cooperatives and not to the others, this gentleman says that in the last three years his export trade has grown from \$1,000 to \$50,000? A. Yes.

Q. Does not that go against your argument?

A. Against my argument in what respect?

Q. That these reserves are a great handicap to private enterprise. A. If he earned money on the \$50,000 that the Government did not take from him he would be happy.

Q. Did he not make some on it? He does not complain in the letter about not making money. A. He was doing business in a small way and his standard profit would not leave him anything that would add to his reserves.

Q. He went after this additional business and carried it on for patriotic reasons? A. No, but it helps the Government and he is looking to the future, no doubt.

BY MR. FRANCIS:

Q. May I direct your attention to page six of the brief. I refer you to the centre of the page where you say: "In no case have they" -- referring to the cooperatives-- "given the comprehensive service provided by Canadian seed houses doing a national business. By a comprehensive service is understood the following:" And then you set out certain things. That is correct? A. Yes.

Q. Are you acquainted with the United Farmers Co-operative Company? A. Yes.

Q. Are they one of your members? A. Yes.

Q. Will you indicate which of these services is not given by that organization? A. At the present time they are not dealing in garden seeds.

Q. But field seeds. Refer to the brief. The heading on that page is "Field Seeds". A. You are quite correct. In field seeds the United Farmers are giving a comprehensive service.

Q. Then this statement is not correct? A. No. That statement should have taken account of that exception.

You have an exception to the rule there.

MR. PRICE: The statement refers to field and garden seeds. It is a broad statement referring to both.

MR. FRANCIS: May I be permitted to conduct this examination.

BY MR. FRANCIS:

Q. So that you say that the statement regarding field seeds is inaccurate? A. I make that correction. You are right.

Q. That will go on the record. With respect to the United Farmers Co-operative Company, then, the whole basis of your argument is wrong? A. With respect to field seeds, quite correct. May I add that they do business in eastern Canada and when it comes to nation-wide business, no. They cover the eastern section and when we speak of national seed houses, we cover the country from coast to coast.

Q. I direct your attention to page five of the brief, in the centre of the page, the last sentence in the second paragraph. You say: "This puts the cooperatives in a very privileged position and they contribute nothing to the country's taxes." Do you stand by that statement?

A. They are in a very privileged position in the sense that we are arguing, in regard to taxation, because they are not contributing.

Q. Is that statement correct that the cooperatives contribute nothing to the country's taxes? A. In the sense that we are arguing, I believe it is, yes. They must have property tax; they have certain taxes. If you are going to interpret that statement exactly in that sense, it is not correct; but interpreted in the spirit in which

we have introduced it, it is correct.

Q. Do you know whether or not the United Farmers Co-operative Company pays taxes? A. Yes. They are a limited company.

Q. Are they a cooperative? A. Yes, but they have incorporated as a limited company and they must do over 20 per cent of business with outside members. In fact, they admit that they do over 20 per cent, and they pay taxes. Let me say that we have no quarrel with cooperatives.

Q. The evidence before the Commission is that a large number of cooperatives in Ontario do pay income taxes?

A. I would think so.

Q. Is it fair to say they contribute nothing to the country's taxes? You use the word "nothing"?

A. I have given the explanation. From the standpoint at which we started arguing, as to special taxation to which private enterprise is subject and cooperatives are not, they are contributing nothing. They have no excess profits tax. That is what we are arguing about.

Q. There has been evidence before the Commission this morning that a cooperative has paid excess profits tax, and yet you say: "This puts the cooperative in a very privileged position and they contribute nothing to the country's taxes."

A. I will gladly modify the "nothing"; nevertheless they are still in a privileged position.

Q. Then this is wrong, this statement you have here?

A. I have said, I will gladly modify it.

Q. It is wrong?

THE CHAIRMAN: The witness states that he modifies it.

MR. PRICE: Certain corporations do not pay income tax.

THE CHAIRMAN: The explanation is quite clear.

BY MR. FRANCIS:

Q. They pay all the other taxes? A. I presume so.

Q. May I see the letter? You can fold it so as to conceal the name. I am not interested in the name. I am reading the last paragraph. Are you vouching for this letter? I quote: "Would it not be wise to make this comparison to the position of seed cooperatives, and should we as private enterprise not be allowed some tax exemption consideration in order to assist us to further develop an industry that up until now has never amounted to very much?"

A. You don't quite get the sense of it. He is talking entirely of flower seeds exported from Canada. Heretofore that has been a very small part of the seed trade, and in a short period, because of seed production in California having turned to vegetables instead of flowers, he was able to build up a substantial business in flower seeds. That is all he refers to.

Q. With respect to flower seeds, referred to in the brief, would you on behalf of the fifty-seven companies you represent ask for tax exemption? Is that your policy?

A. No. We are quite satisfied if we are on an equal basis. We realize that in the meantime we must have substantial taxation but we are hopeful that in the future we shall have less.

Q. I am glad that is cleared up. That applies only to flower seeds? A. Yes.

Q. You mentioned the British Columbia Association. Would that be the British Columbia Co-operative Seed Association? A. Yes.

Q. According to the evidence before the Commission, this cooperative gives the following services:

"(a) Arranges production with members.

"(b) Contracts to sell the members' production of seeds to the Seed Trade, the British Food Mission through Special Products Board, the Agricultural Supplies Board of Canada and for Export.

"(c) Plans localities for different crops and arranges variety zones to avoid crop cross pollination, guides and directs members in all production.

"(d) Arranges for inspection of crops, roots, bulbs and seed by Plant Products Division inspectors throughout the entire year.

"(d) Cleans, processes, blends and prepares for market, according to grade, the members' seeds, assembles and delivers all production."

For that type of business 'would you not say that is a wide range of services? A. Yes. From the standpoint of producers they are rendering complete service.

Q. They are in a different field? A. They are not distributors; they are not retail distributors.

Q. But in their own field they do a wide variety of jobs? A. Yes.

Q. But they are in the production field? A. Yes.

Q. You represent the distribution field? A. We represent from production to final distribution.

Q. The whole gamut? Do you know this organization to which I have referred? A. Yes.

Q. It is well operated? A. Yes, a good concern.

Q. I think there is one other question. In his opening remarks your Counsel referred to the hardships -- he used the word "hardships" -- of the fifty-seven companies you represent. Will you indicate to the Commission something of

the hardships to which he referred? A. Yes. It deals more particularly with a side of the business to which you have not referred at all. In western Canada in recent years we have been producing large crops of alfalfa seed and brome grass seed. The cooperatives in the three provinces have a selling agency. There is one selling agency in Winnipeg and within a very few years they have taken over a large share of the accumulation of this seed grain in western Canada and have handled it up to the point where they turned it over to the rest of the trade for distribution, or distribution through the Government export office. They have built a very large assembling and distributing business, and they built that up without any severe taxation such as the private companies have had to cope with. The seed business necessitates steady progress as the country grows and we have to enlarge plants and get new locations and additional machinery. They have located at various points in the west in an extensive way and cut into private enterprise substantially. It has been a hardship.

Q. Can you say whether any of these firms or companies, these fifty-seven, have been able to expand during war years? Are they expanding -- the ones you represent? A. Our companies.

Q. Yes. A. Oh yes. We have expanded in spite of not having that assistance.

Q. After paying the taxes levied on your companies you have still sufficient profit to carry out extension?

A. We have had no adequate reserves since 1930. It has been impossible in the seed business to provide adequate reserves and that has meant that our standard profits were small, and since we have had better trading years we pay it to the Government.

Q. But considerable expansion has taken place?

A. We have to stay alive to compete.

Q. Just one more question. With reference to the western cooperative, which one is that? On page four you say: "For example, one western cooperative claims a cost of less than one-fifth of a cent a bushel to the producer."

A. That was in the Alberta Seed Growers Co-operative Report at their annual meeting last fall.

Q. In the annual report? A. That was reported at their annual meeting as it appeared in the press.

BY MR. ARNASON:

Q. May I ask you one or two questions. You referred under cross-examination to a certain western cooperative organization handling alfalfa seed? A. Yes.

Q. On page four of the brief you refer to certain functions which are discharged by the seed trade in the handling of clover and grass seed. These include: "A. Locate raw supplies in the hands of growers and country dealers. B. Assemble this at central points. C. Put it through cleaning machinery to remove weed and other foreign seeds, dirt, chaff, etc. D. Have it graded and Government inspected. E. Repackage it. F. Find a market for it among non-seed growing farmers in Canada and outside the country." Is it not a fact that the cooperative organizations in the three prairie provinces that handle alfalfa seed perform these functions? A. They are performing up to D. E and F they are not carrying out.

Q. Do you mean to say that they do not find a market outside Canada? A. No. As a rule that seed goes east in carload lots and is distributed.

Q. I was under the impression that in previous years

they shipped considerable quantities to the United States.

A. Yes. That is now sold through the Government Export Office.

Q. But before that? A. Yes. That is correct. But we are referring to distribution to farmers in Canada. That is handled apart from the cooperatives that buy that seed through producer cooperatives.

Q. But this particular organization carries out the main functions of handling? A. There is a large part left after they assemble the seeds.

Q. One more question. At the bottom of page two, referring to the disadvantage under which the private trade labours as compared with the cooperative associations, you say that such a policy "threatens to restrict the variety and supply of seeds offered the Canadian consumers, and the development of new markets, both domestic and export, for Canadian seed." These cooperative organizations consist of farmers who grow this seed? A. Yes.

Q. I just wondered what you meant by this statement in view of the fact that, as I believe, it is generally agreed that the average grower of alfalfa or any grass seed is interested in anything that increases the market, domestic or export? A. The previous paragraph must be read in connection with that to give the connection. We are there claiming that the exemption from taxation handicaps private enterprise through not having funds to properly expand. That is our contention.

Q. You agree that a farmer who grows seed is just as much interested in improving the market? A. He is not as well qualified to obtain, he is not in a position to obtain, the new varieties. He may have the desire but he

is not in a position to realize it.

BY MR. ELLIOTT:

Q. Does each of your fifty-seven members give what you call a comprehensive service? A. No; some are retail dealers. That is correct. It should refer to national seed houses. There are some who cover the entire country.

Q. Don't answer this question if you don't want to, but I have been curious about it and we have had little information. You say that seed houses have had to expand and that they have not had much in the way of funds left for expansion. How has the expansion that they have made been financed in a general way? A. Up to 1930 they had fairly satisfactory trading years for a long period. When the farmers were well off the seed houses prospered but during the depression they were hard hit because the farmers too were hard hit, and the gardeners as well, so that since the depression they have not had a very good break.

Q. Generally speaking, have they had to resort to bank loans or bond issues? A. No. Most of the seed houses are stock companies. They have not used bond issues; substantially bank loans.

Q. In new issues of stock, presumably in the case of some of the smaller ones, the proprietor has put in an investment? A. I think so.

BY MR. VAUGHAN:

Q. On page six you say that private industry has given complete service and that the service given by co-operatives is very limited. You say that in no case have they given comprehensive service, doing a national business. Can it be taken from that statement that your criticism would be removed if the cooperatives gave that service which

you are giving and which they are not now supplying?

A. I still think they should be on the same basis of taxation. We are arguing only from the basis of taxation.

Q. But you speak of this from the standpoint of service. A. We are simply trying to show that the seed business is useful and should have support and be given an equal opportunity.

Q. Let us suppose that, in regard to taxation, a decision were arrived at by the appropriate authorities which you would regard as favourable from your point of view, would you still have that criticism to make?

A. No. We would be quite happy if they could do business better than we can.

Q. Your objection is that you are giving a very comprehensive service and they are not. My point is, would you be satisfied if the cooperatives gave that same service? I thought you would say that there would still be unfairness, but you do not say that? A. I don't think that any private seed house -- there is none that I know of -- would object to competition from cooperatives on an equal basis. We really have no objection to that, and I think our statement is quite correct as far as the services at the present time is concerned. If they can compete with us, fine. If they can give the full service that we do, all right.

BY MR. PRICE:

Q. You are not objecting to competition on the same basis of taxation? A. That is right.

Q. I think that point is cleared up. A. That is my meaning.

THE CHAIRMAN: Should we have a survey now, Mr. Parker, of the work that remains to be done? What have you left?

MR. PARKER: There is the submission by the independent milk dealers; then we have the Independent Hatcheries and Independent Egg and Poultry Dealers, one brief being eighteen pages and the other six. My understanding was that there was an arrangement that, if time permitted, they would be heard at the end of the other cases.

THE CHAIRMAN: What do you propose now?

MR. PARKER: The independent dairies.

.....

Brief submitted by Certain Independent Dairy Companies and Distributors of Milk and other Dairy Products in the Province of Ontario

MR. SHAPLEY: I appear for the companies whose names are appended to the printed brief that is before you, Mr. Chairman. May I explain, so that it will be perfectly clear to the Board, what took place in connection with the preparation of this document which we have been bold enough to call a brief. Certain of the men concerned in laying before this Commission their point of view in reference to this very serious subject met in the early part of January and formed themselves into a committee and endeavoured to agree as to what representation should be made to the Commission on this matter. Thereafter they made some casual contact with some of the persons, firms and corporations whose names are appended to the list in order to get in a general way their point of view and to determine exactly what statement should be made here.

They met as a self-appointed committee and for a while they themselves could not agree as to what representations should be made.

MR. PARKER: There was no cooperation, so to speak?

MR. SHAPLEY: There was little cooperation at the time. Ultimately, however, they agreed to this general observation which is contained in paragraph three of the brief: "We have no objection to the income of farmers', dairy-men's, livestockmen's, fruit growers', poultrymen's, fishermen's cooperative companies and associations (the members or shareholders of which are primary producers) organized and operated on a cooperative basis, continuing to enjoy immunity from income taxes, provided such organizations market the products of the members or shareholders under an obligation to pay to them the proceeds from the sales on the basis of quantity and quality, less necessary expenses such as costs of goods, wages, depreciation, bad debts, interest on loans, but that any reserves set up as well as any present or future members' or shareholders' equity should be deemed to be profits and taxed as limited companies are taxed under the Income War Tax Act and Excess Profits Tax Act."

That is the theme song of those whose names are appended to this so-called brief. But may I make this explanation. It is only within the last five or six days that this document as printed was placed in the hands of those men whose names are subscribed to it, and to our knowledge none of them have objected to what is stated in the document.

I wish to be perfectly clear on this. It was really these men who met as a so-called committee, being anxious to make known to you gentlemen their point of view, that primarily sponsored this document; and when I say I represent those whose names are appended there, I would ask you to bear

in mind that they did not formally speak to any of us and say, "We associate ourselves with everything there stated." Having made that explanation, I wish to ask Mr. Hull a few questions. At the moment I would prefer that he be not sworn.

THE CHAIRMAN: You cannot very well make that request if he is to be asked questions.

J. E. HULL,

Certain Independent Dairy
Companies and Distributors
of Milk and other Dairy Products,
having been duly sworn
testified as follows:

BY MR. SHAPLEY:

Q. What is your present position? A. At the present time I am Secretary-Manager of the Toronto Milk Distributors Association. I would point out, however, that I am not appearing in that official capacity. I am appearing on behalf of those who are supporting this brief.

Q. Prior to holding this position with Toronto Milk Distributors, had you any experience in farm work?

A. I have lived on a farm since 1910, and in fact I am far more at home there than in this atmosphere. However, in 1934, in a moment of weakness, I acceded to a request to go on the Milk Control Board of Ontario. My final decision was probably influenced to some extent by the low agricultural prices in the early 30's. I served with the Milk Control Board for three years, from 1934 to 1937, and I have been on the farm ever since. Since 1940 I have been filling the dual capacity of Secretary and Manager of the Toronto Milk Distributors Association but I still have my roots deep in the farm.

Q. Will you please read the brief. A. The brief reads:

"This brief is submitted on behalf of the Independent Companies and Distributors of Milk and other Dairy Products in the province of Ontario, whose names are appended hereto in reference to the matters set out in the order in council dated the 16th of November, 1944.

"At the outset, let us say that we have no quarrel with the cooperative movement as such. Our sole interest is in equality and our right to equality of taxes involves no debate as to the merits of the cooperative movement.

"We have no objection to the income of farmers, dairymen's, livestockmen's, fruit growers', poultrymen's, fishermen's, cooperative companies and associations (the members or shareholders of which are primary producers) organized and operated on a cooperative basis, continuing to enjoy immunity from income taxes, provided such organizations market the products of the members or shareholders under an obligation to pay to them the proceeds from the sales on the basis of quantity and quality, less necessary expenses such as, costs of goods, wages, depreciation, bad debts, interest on loans, but that any reserves set up as well as any present or future members or shareholders' equity should be deemed to be profits and taxed as limited companies are taxed under the Income War Tax Act and under the Excess Profits Tax Act.

"We submit --

"(1) That all other cooperative companies and associations should be taxed as other limited companies are taxed under the Income War Tax Act and under the Excess Profits Tax Act because -

"(a) it is contrary to common justice that in the same country such corporations and associations (legal entities under the Companies' Act of the province of Ontario) should carry on their businesses without contributing their proper quota in taxation for the services rendered by the country and another portion have to bear a higher burden of taxation in consequence; and because

"(b) this immunity from taxation of cooperative trading corporations and associations is gradually but surely eliminating the taxable trading unit, and when one eliminates a tax-paying unit and replaces it by a non-tax paying cooperative corporation, association or unit, one is increasing the tax burden not only of the next trading unit and expediting his elimination but also the general body of tax payers, including wage earners and salaried persons; and because

"(c) the enormous growth of the cooperative movement during recent years shows an ever increasing volume of trade is yearly passing out of the taxable area, making it more and more difficult for the Minister of Finance to obtain funds for the country's purposes.

"2. That the simple income tax exemptions which were originally given to farmers, fruit growers or like associations, acting as selling....."

May I emphasize the word "selling". Continuing:
"....agents for their members and returning all their earnings in cash to their members has been stretched to give the present income tax immunity to large companies and

associations of companies who call themselves cooperatives although they actually bear in many cases only the most remote relationship to the farmers and fruit growers who were originally the subject of the country's solicitude.

"3. That for many years the situation was not serious from a competitive point of view. The tax rate was low. The differential enjoyed by the cooperative corporations and associations was small. The cooperatives were small companies -- groups of farmers operating together locally -- and operating on the true....."

I emphasize the word "true". Continuing:

".....cooperative principle of returning their earnings to members in cash. What began as a slight subsidy in favour of the cooperatives has now become, because of increasing tax rates, a burden for privately-owned businesses, partnerships and corporate businesses in Canada including wage earners and salaried persons. It has been in the past twelve years or so that the new form of super....."

I heard some one say "super-duper". Continuing:

".....cooperatives have come into the picture in Canada, pyramiding their earnings and buying out their privately owned competitors and expanding into practically all lines of business and industry.

"4. This rapid expansion, we submit, stems mainly from the income tax exemption provided by Section 4 (p) of the present Income War Tax Act which reads as follows:

'(p) Co-operative companies and associations --
The income of farmers', dairymen's, livestockmen's,
fruit growers', poultrymen's, fishermen's and other
like cooperative companies and associations, whether with
or without share capital, organized and operated on a co-
operative basis, which organizations

'(a) market the products of the members or shareholders of such cooperative organizations under an obligation to pay to them the proceeds from the sales on the basis of quantity and quality, less necessary expenses and reserves;

'(b) purchase supplies and equipment for the use of such members under an obligation to turn such supplies and equipment over to them at cost, plus necessary expenses and reserves.

'Such companies and associations may market the produce of, or purchase supplies and equipment for non-members of the company or association provided the value thereof does not exceed twenty per centum of the value of produce, supplies or equipment marketed or purchased for the members or shareholders.

'This exemption shall extend to companies and associations owned or controlled by such cooperative companies and associations and organized for the purpose of financing their operations.'

"By Section 7 (a) of the Excess Profits Tax Act, the income of the above-mentioned cooperative corporations and associations is also exempt from taxation under that Act.

"5. There are approximately 326 cooperative corporations carrying on business in Ontario incorporated under Part XII of The Companies Act. Some of such corporations are incorporated with share capital and some without share capital. Over one-third of such corporations have been incorporated since the war began. Forty-five of such corporations have been organized during the year 1944.

"6. A copy of Part XII of The Companies Act, Revised Statutes of Ontario, 1937, Chapter 25, is appended hereto.

"7. It will have been seen from a perusal of the foregoing provisions of The Companies Act that a cooperative corporation has all the essential powers and attributes of an ordinary corporation or company to enable it to carry on business and to make profits and gains. And it will have been seen also that after paying interest on the capital of such cooperative corporation at a rate not exceeding eight per cent per annum any surplus profits remaining must be divided among the members or shareholders of the corporation in proportion to the business done by each member or shareholder with or through the corporation; that such cooperative corporation may trade with non-members or non-shareholders at such proportionate rate of that paid to members or shareholders as may be determined by by-law; and that such a cooperative corporation may set aside an amount not to exceed twenty per centum of the net surplus funds in any one year, as a reserve fund.

"8. It has been said that the constitution and operations of a cooperative corporation closely resemble those of an ordinary company. A company is a legal entity separate from its members or shareholders; so is a cooperative. A company operates through the agency of its paid officers and employees; a modern cooperative operates in the same way. A company has capital stock divided into shares; so has the cooperative. A company buys and sells, that is, it carries on a trade; so does the cooperative. The profit of a company is arrived at by striking a balance of income over outgoings including in the latter operating expenses, expenses of management and any trade losses; the cooperative's surplus is arrived at in precisely the same way. In the case of both, the members or shareholders are not liable for debts

of the corporation except to the extent of the amounts unpaid on their memberships or shares. In the case of both, the individual member or shareholder is not entitled to the surplus or reserve or any part thereof until the directors have declared a dividend in accordance with the constitution of the corporation or cooperative. In fact the only difference between a company and a cooperative appears to be that the company divides its profits between its shareholders in proportion to the shares owned, whereas a cooperative after paying interest on share capital, if any, distributes its profits in proportion to the volume of the members' purchases or sales as the case may be.

"9. The Independent Dairy Companies entertain the strong conviction that from the transactions of the co-operative corporations and associations with its members and non-members a true trading profit can and does emerge and that such profit is the difference between the sale price of the products and the cost price of the products, plus the expenses of management.

"10. It is conceded that the post-war national taxation burden will be tremendous. Inevitably, it appears to us, a substantial part of whatever sum it may be must continue to be raised from business taxes. But unless those taxes are on a basis of equality among the various competing segments of business, many companies will not be able to survive in the fact of the tax-free competition of co-operative corporations and associations.

"11. The only way to achieve equality is for all like competitive businesses to be taxed alike, so that no one may have an advantage over another. This calls for the imposition of Dominion income taxes and excess profits taxes

on the earnings of cooperative corporations and associations at the same rates as independent corporate businesses are taxed. And it calls for the imposition of these taxes on all earnings of the cooperatives and associations regardless of what earnings are called, and for the imposition of these taxes immediately.

"12. The Independent Dairy Companies respectfully suggest that cooperative corporations and associations are engaged in the carrying on of a business or trade of a commercial character and their surplus or profits comes squarely within the definition of 'income' as defined in the Income War Tax Act, and their profits being derived from business should be taxed in the same way as the profits of other corporations under the provisions of the Income War Tax Act and Excess Profits Tax Act are taxed."

.....

I think Mr. Shapley has prepared a sort of supplement which we thought might reduce to writing some short further notes that might make for greater clarity.

The Commission adjourned until 2.15 p. m.

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The Commission resumed at 2.15 p.m.

MR. SHAPLEY: I have furnished the Commission with copies of a submission which my clients, as I understand, are prepared to make in further reference to this brief. May I read it?

THE CHAIRMAN: Yes.

(Mr. Shapley read the memorandum.)

MR. SHAPLEY: In reference to the supplementary memorandum I think I should say that on the occasion I was first here, when Mr. Macdonald was giving the statement on behalf of the Canadian Manufacturers' Association, he was asked, it appeared, whether there were any constructive suggestions he could make to the Commission that would help it in its task. I then appreciated that the document that was before you called a brief was only a recital of the many things that had been said in many ways before this Commission, and so I told the committee that I thought, in all fairness to the Commission, it should advance something in the form of a suggestion which might be implemented by your report to meet the problem you have in hand. I think I should add that, as a matter of fact, the signatories of the document called a brief have not all seen this. I only advance this as the thoughtful consideration of the committee, who felt that they had the authority of the persons who had authorized the issuance of this document. I think I should also say that I have here some written evidence of the committee's effort to get a cross-section of the views of persons in the business and to have them associate themselves with this brief. On looking at the form of letter that was signed, I find that the signatories to this document have only said that they are in favour of, and will support morally and financially, a brief urging

the removal of the existing discrimination in respect to taxation, to be presented by the independent dairy operators of Ontario to the Royal Commission on Co-operatives. These gentlemen, not having seen this document, may think that I have gone far beyond what is there contemplated, and so I just leave it with you, Mr. Chairman, in that way. I am sorry the matter is not in better form.

THE CHAIRMAN: I think we understand the situation.

MR. SHAPLEY: That is the situation on behalf of these gentlemen.

THE CHAIRMAN: Are there further questions?

MR. PARKER: I do not think it is the type of document that requires examination by me, but I might put this to Counsel, if he sees fit to discuss it for a moment. I have not had an opportunity of studying carefully the proposed concrete suggestions. They are at least concrete and to that extent, I should think, they are helpful. But has he given consideration to this question: Would it be possible to have a better definition of the word "income" as given in Section 3 of the Income Tax Act by endeavouring to set forth the elements that go to make up income? I put that to counsel because, among other things, it is a matter that has been running through my mind.

MR. SHAPLEY: I can only reply to my learned friend in this way. I have no idea, for instance, what this body will report in reference to this matter, but if it comes down to a recommendation I suggest that the Commission should report that, in its view, income should be defined along these lines, and I venture to say that the law officers would use appropriate language for the purpose. Have I answered your question, Mr. Parker?

MR. PARKER: I suppose that is as far as you can go; but the word income could be defined as being deemed to include A, B, C, D and so on.

MR. SHAPLEY: If there is a recommendation to that end, I should think appropriate language would be used by the law officers who might have to do with framing any suggested amendment.

THE CHAIRMAN: These are merely suggestions for a definition?

MR. SHAPLEY: Yes. I should add that some of the signatories of the document may believe that, in making any concessions to what we call the true cooperative, we have gone far beyond the point to which we should go. There were certain of our body who said that if a band of men wished to trade cooperatively that was their business, but that if they traded cooperatively they should be bound by the same kind of tax legislation, whether they divided their surplus at the end of the year or not.

G. MEREDITH HUYCKE,

The Independent Dairy Companies,
having been duly sworn
testified as follows:

BY MR. PARKER:

Q. Perhaps you would give us the source of the figures set forth in the brief. There are approximately 326 indicated. A. That is the result of actual count.

Q. How was the count taken?

MR. SHAPLEY: I got a list of the cooperatives in Ontario and counted them. I got them for a former minister in the late Government who is associated with us in this matter.

BY MR. PARKER:

Q. All cooperatives do not file returns with the Government. Is that correct? A. I would expect that.

Q. Can you tell us where you could get an official list of active cooperatives in any given time without taking a census? A. We could make available the list we had.

Q. How was the list made up -- by someone touring the whole province? A. It would be my understanding that within the confines of our Provincial Government body the cooperatives are registered and listed. I may be wrong.

Q. Is that the source of these figures? I am not questioning their reliability but I want to know if they are authentic. By the same token, some such corporations are incorporated with share capital and some without and you have no knowledge how many there are of each? A. No.

Q. And over one-third of such have been incorporated since the war began? Where do you get that information?

A. That is something we could table with you, as to the times at which they were incorporated or registered.

Q. What is the source of the information given here?

A. It would be my understanding that they are registered in the provincial building. That could be checked.

Q. Forty-five of such have been organized during the year 1944? A. The source of information for that would be the same, but we could check that and give it in writing.

MR. HOWARD: Comparing the brief with the memorandum, there is one question that enters my mind. Is the determinant for exemption of patronage dividends to be the fact that they are paid in cash, or that there is an obligation to pay them? It would seem to me from the body of the brief that the fact of payment is to the determinant,

whereas in the memorandum there is an elaborate reference to the terms of the obligation to pay. Further, if payment is to be the basis of exemption, when does payment have to be made in respect of a particular period? Those are two things I do not find it easy to reconcile as between the brief and the memorandum.

WITNESS: With reference to your question, I am wondering if the answer would not be in Section 2 of the brief: "That the simple income tax exemptions which were originally given to farmers, fruit growers or like associations, acting as selling agents for their members and returning all their earnings in cash....."

MR. HOWARD: That is what puzzles me. If the determinant for the exemption is payment, why worry about the obligation?

MR. SHAPLEY: The point is well taken and I have no doubt a note will be made of it. It is to be cash. It cannot be a colourable promise to pay in the sense of deferred certificates.

THE CHAIRMAN: That is what I understood in the statement of the brief.

MR. PARKER: Disbursed during the accounting period.

MR. SHAPLEY: It has to be a real obligation to be met within a reasonable time.

MR. PARKER: Do you make a distinction between business done by selling agents and a profit made by buying and selling?

MR. SHAPLEY: My thesis is that they must stick to their primary business. They cannot go and buy all sorts of things and sell to all sorts of people. The primary producer is part of the economic system and if he trades with his members and disburses his avails at the end of

the year, or within a reasonable time after that, we have no objection to him. We can compete with him.

THE CHAIRMAN: That is strictly within 4 (p)?

MR. SHAPLEY: Yes, if the Act were administered.

MR. ARNASON: In the suggested definition you refer to the prohibition of the right to market products of non-members. I am wondering how far it was intended to go in that respect. This illustration may not necessarily apply here, but I am thinking of the cream producer in one of the Western Provinces who ships a can of cream one hundred miles to a creamery. The creamery is obliged to take that cream regardless of whether the man is a member or not. I was wondering how you intended to have that prohibition applied. Was it intended to imply that any business done with non-members constituted private business?

MR. SHAPLEY: That is the primary idea.

MR. ARNASON: I thought that was what you had reference to.

THE CHAIRMAN: We should like to go at great length into this, but unfortunately time does not permit.

MR. SHAPLEY: I appreciate that, Mr. Chairman, and that is why I thought you would possibly accept that which was intended as merely a brief.

MR. HOWARD: You realize, Mr. Chairman, that the demands upon your time are the very reason why some of us are not asking more questions?

THE CHAIRMAN: I understand that.

MR. VAUGHAN: This has been drawn up hurriedly, I realize. Could it be accepted as a tentative recommendation, allowing this organization and Mr. Shapley to give the matter further study with a view to making any revision or amendment in it which they may see fit?

THE CHAIRMAN: I understand it to be a supplement to the brief submitted, containing suggestions made by your organization.

MR. SHAPLEY: Yes, certainly. I would appreciate it if it could be arranged that I have time to ask the men concerned if they subscribe to this. What we were primarily concerned with was to get before this body a submission and to tell them we want equality of taxation. We prepared this hurriedly, but that is our thesis at the moment.

MR. PARKER: Lest there be a misunderstanding, what Mr. Vaughan had in mind was to accept this for what it is at the moment, with permission to Mr. Shapley and his associates to revise it and send in their views after further study.

MR. VAUGHAN: Yes, and have it confirmed.

MR. SHAPLEY: Yes; I would like to have it confirmed.

THE CHAIRMAN: That is understood.

MR. HOWARD: Will Mr. Shapley send a copy of it to counsel who are interested in it?

MR. SHAPLEY: I shall be delighted.

THE CHAIRMAN: And Mr. Francis.

MR. SHAPLEY: Yes.

MR. MILLIKEN: I have not seen a copy of the statement that was read, but in paragraph three of the brief there is something that bothers me. I want to be sure what is intended. Reference is made to "an obligation to pay to them the proceeds from the sales on the basis of quantity and quality, less necessary expenses", and then it sets out what the necessary expenses are. If they are under an obligation to pay the proceeds less necessary expenses, how is it possible that they can have reserves set up apart from the

necessary expenses? That is the part I am not clear about. Do you see the point I am making?

MR. SHAPLEY: I am sorry, I don't.

MR. MILLIKEN: You will see it in the third paragraph where you say: "provided such organizations market the products of the members or shareholders under an obligation to pay to them the proceeds from the sales on the basis of quantity and quality less necessary expenses such as costs of goods, wages, depreciation, bad debts, interest on loans." That is their obligation. How can they possibly set up reserves in addition to that? You then say that "any reserves set up as well as any present or future members' or shareholders' equity should be deemed to be profits", and so on. If they are under an obligation to pay it all, are you suggesting that they might not pay it all at the time but hold part of it back? Is that your suggestion, sir?

MR. SHAPLEY: My point is that if true cooperatives make their division after payment of expenses they will have no reserves; but if, on the other hand, they elect under part 12 of the Ontario Companies Act to set up a reserve as much as 20 per cent, then we think that is the time they ought to be taxed, because they are not true co-operatives.

MR. MILLIKEN: Why do you put in "present or future members' or shareholders' equity"?

MR. SHAPLEY: I have read the case of the Minister of National Revenue against the Saskatchewan Pool Company and they had commercial reserves and elevator reserves that ran into millions of dollars. It does not occur to me that it is fair that they should have that capital, and if they can go and buy all these businesses why should that capital

be exempt from income tax? As soon as you allow a reserve to be set up you open the door to the vices that seem to exist elsewhere. We have not had them in Ontario but we fear they may spread here if something is not done. They can go and buy out a competitor, and it has been done in recent months; the cooperator has bought, in open competition a dairy business, and in that community they can trade as against the independent with the advantage of this immunity. When that starts we say they are not true cooperatives.

MR. MILLIKEN: I will not ask any more questions because later on I hope to point out the distinction which is brought out clearly in the Fraser Valley Milk Producers' Association and Wheat Pool cases. I do not see anything to be gained by it at the present time.

THE CHAIRMAN: That concludes the brief.

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ROBERT MACDONALD,

President,
Ontario Credit Union League Limited,
having been duly sworn
testified as follows:

BY MR. FRANCIS:

Q. There are one of two questions I wish to ask you, Mr. Macdonald. I understand you are President of the Ontario Credit Union League Limited? A. Yes.

Q. You live in the city of Toronto? A. Yes.

Q. You hold an executive position with the City of Toronto? A. I do.

Q. And you have been Director of the League since 1940? A. Since 1940 or 1941, the year of incorporation.

Q. I understand you have taken a great interest in credit unions for a good many years? A. Yes.

Q. You are also Treasurer of the Municipal Employees' Credit Union? A. Yes, I am.

Q. That comprises employees at City Hall? A. Employees of the City of Toronto, with the exception of the Fire Department, who have their own.

Q. How many members have you? A. About 1,000 at the present time.

Q. That is in the Credit Union of which you are the Treasurer; there are 1,000 members? A. Yes.

Q. You have authority to present this brief? A. Yes. I have authority from the executive of the League.

Q. Will you please read the brief. A. It reads:
"I. Introduction

This brief is being submitted by the Ontario Credit Union League Limited on behalf of the credit unions of the Province of Ontario. There are at present 220 credit unions in Ontario, 144 of which are members of the Ontario Credit Union League Limited. The remaining credit unions, though not members of the League, are not making any separate presentation to the Commission, and most of them have requested the League to speak on their behalf.

"II. Incorporation of Credit Unions in Ontario

Credit unions in Ontario are incorporated under a statute of the legislature known as The Credit Unions Act, 1940, being chap. 7 of the statutes of that year. It was amended by chap. 7 of the statutes of 1942 and chap. 13 of the statutes of 1944. The Credit Unions Act superseded an earlier act. The Co-operative Credit Societies Act, under which a few credit unions were incorporated, 14 of which are still in existence.

"The Credit Unions Act provides that membership in a credit union shall be limited to persons having a common

bond of occupation or association, or to persons within a well-defined community (Sec.9). This divides credit unions in the Province into three distinct types: occupational, associational and community. The occupational groups are the most numerous and generally speaking the largest. They are organized among persons having a common employment. The associational groups are usually organized among the members of a church or sometimes the members of a cooperative or other association. The largest credit union in Ontario, from the point of view of assets, is in Notre Dame Parish in Ottawa. Community credit unions are organized chiefly in the rural areas.

"The capital of credit unions is divided into shares having a value not exceeding \$10 (Sec.20). The usual value is \$5. Shares are withdrawable at will and the capital of a credit union may be decreased by the withdrawal of shares or increased by subscriptions for new shares or by the admission of new members (Sec. 21). In addition to receiving money as payment for shares, a credit union may also accept deposits from its members.

"Sec. 28 of the Act prohibits a credit union from accepting deposits or lending money to persons who are not members thereof. Because of this provision a credit union is a true mutual organization in which a number of persons group themselves together to pool their resources and make loans to their own members. Accordingly, in point of law, a credit union has no income.

"Sec. 27 of the Act compels a credit union to set aside 20 per cent of its surplus each year as a reserve against uncollectable loans and losses. After payment of operating expenses and provision for the reserve fund, the remaining surplus is divided between the credit union

members as a dividend on shares and interest on their deposits. In many cases, a portion of the surplus is returned to borrowers as a patronage rebate of part of the interest paid by them on their loans. Although there is no statutory limitation on the rate of interest or dividends, the rate seldom exceeds 3 per cent, and if the earnings are more than sufficient to pay this rate, a patronage rebate of the excess is almost invariably made to the borrowers.

"Sec. 48 of The Credit Unions Act makes provision for the incorporation of a league of credit unions, and it is under this section that the Ontario Credit Union League Limited has been incorporated. To date it is the only league incorporated in Ontario. The purpose of the League is generally to promote the interests of credit unions in the Province, as set out in Sec. 48. Also, it operates as a central credit union accepting as deposits and as payment for shares the idle money of any credit unions that are members of the League which wish to deposit such money with it. Out of the money thus deposited loans are made to credit unions which temporarily have a loan demand in excess of their assets.

"III. Present Situation As To Taxation

"At the present time credit unions are exempt from the payment of income tax by virtue of Clause (q) of Sec. 4 of The Income War Tax Act which exempts from the payment of tax the following:-

'(q) The income of any banking institution organized under cooperative provincial legislation which derives its revenues from loans made primarily to members residing within the territorial limits within the province to which the institution is

restricted for the carrying on of its business.' There may be some doubt as to whether this clause also exempts credit union leagues or federations. Generally speaking, they have not been assessed.

"The provision of The Income War Tax Act which at the present time causes credit unions the greatest concern is Sec. 92 which requires any corporation paying dividends on shares to deduct 7 per cent of the dividend at the source and remit it to the Receiver General of Canada on account of the income tax payable by the recipient. In some cases Inspectors of Income Tax have insisted on a strict compliance with the section and in other cases they have not. Although credit unions have a capital divided into shares they are not shares in the ordinary commercial sense of the term as no certificates are issued and the investment may be withdrawn at will. If requested a credit union is obligated to refund the money paid on account of shares. Money paid in on shares is recorded in a pass book similar to an ordinary bank pass book which contains no indication of the number of shares held by the owner of the pass book. In order to determine the number of shares owned, it is necessary to divide the amount standing to the member's credit by the par value of each share. When considered in this light it will be seen that credit union shares are more in the nature of a 'unit of saving' than shares in the ordinary sense.

"Because the par value of credit union shares is so low and they are so widely distributed, credit unions consider it an undue hardship to be required to deduct 7 per cent of the dividend at the source and make out the necessary T.5 forms in quadruplicate each year. A number of Income Tax Inspectors looking at the matter in this light have not insisted on a strict compliance with the section although

in other cases they have.

"IV. Submissions

On behalf of credit unions in the Province of Ontario we wish to make the following submissions to the Commission:-

(1) That the exemption contained in the present Clause (q) of Sec. 4 be continued;

(2) That words be added to Clause (q) making it clear that leagues and federations of credit unions are also exempt from tax; and

(3) That credit unions and credit union leagues and federations be exempt from complying with the provisions of Section 92 (sub-sec. (1) as to dividends on shares.

"V. Reasons for Exemption From Tax

In making the above submissions we base our claim for exemption from tax on the following grounds:-

(1) Credit unions being true mutual societies cannot, in point of law, have any income and therefore should not be subject to tax. In this respect they are in the same position as life insurance companies or other mutual corporations, and even without the present clause (q) of Sec. 4 would not be subject to tax. As authority for this statement, reference may be made to the cases of New York Life Insurance Company v. Styles (1898 A.C. 381; and Jones v. South West Lancashire Coal Owners Association (1927) A.C. 827, which are cited at considerable length in the brief presented to this Commission by The Ontario Co-operative Union.

(2) Credit unions justify their claim for exemption from taxation also on the grounds of their great social value to the community. Although not charitable organizations in a strict sense, they are something akin to charitable organizations in that they operate among the low income groups and wage earners, encouraging and counselling them in the habit of thrift in order that they may stand on their own feet financially. They provide in addition a source of credit at reasonable rates of interest to people who, because of the uncertainty of their income or the lack of security in the commercial sense, are usually unable to obtain credit elsewhere and who, if they do obtain credit elsewhere, are able to do so only at very high interest rates.

(3) Credit unions are a practical device for the abolition of usury. For hundreds of years nearly every government worthy of the name has attempted by legislation to control or to limit the high rates of interest charged by money lenders to people in needy circumstances for the use of money. In our own province we have the Ontario Money Lenders Act R.S.O. 1937, Ch. 243, and the Money Lenders Act (Dominion) R.S.O.C. 1927, Ch. 135.

These acts and many others have attempted to control interest rates on small loans, but generally speaking they have been ineffective because unless a source of credit at reasonable rates is provided, the borrower, if he needs the money badly enough, will pay the rate that is demanded of him. Credit unions, by supplying the

credit at reasonable rates where other institutions have failed to do so, have for the first time provided an effective check on usurious money lending.

(4) Credit unions do not compete to any extent with any other business. The money that is saved in credit unions is deposited in small amounts of 25 cents or 50 cents at a time and often as low as 10 cents at a time, because credit unions emphasize the regularity of the savings rather than the amount. No other financial institution is able to accept profitably deposits of such small amounts. Similarly, the loans made by credit unions are for the most part made to persons who are not considered good risks by other lending institutions. Because of this feature of credit union operations they do not compete with any other business institution.

(5) Credit unions are operated almost entirely by voluntary help. Occasionally, if the credit union is large and has substantial resources, the Treasurer receives a small honorarium for the work he does, and only one or two very large credit unions are able to employ any full time personnel. All the directors, members of the credit committee, and the supervisory or audit committee serve gratuitously in order to provide credit union services for those that need it. It would be extremely unfair to tax the surplus of credit unions as income under these conditions. The officers could very well expect to be paid for their work before the payment of any tax, and if so, there would be no surplus on which to base a tax.



(6) One of the main functions of a credit union is to build character, and this is done by teaching and encouraging a credit union member to handle his own money prudently and to use credit only when it is advantageous for him to do so. It is not a profit institution in any sense of the word. As character building is something of value to the local community and to the nation at large, it should be encouraged rather than discouraged by unnecessary taxation.

(7) Although credit unions should be exempt from income tax, the income received by their members from the operations of the credit union will not necessarily be tax exempt. It constitutes taxable income in the hands of the recipient and if the recipient is otherwise taxable, tax will be paid on it. Credit unions in this way, are increasing the tax payable to the Government because, by accepting deposits in small amounts, they permit persons who would not otherwise be able to do so, to establish savings accounts on which they earn interest. Any interest received on such accounts is taxable if the person receiving it is otherwise taxable, and thus increases the revenue to the Government.

(8) Leagues and federations of credit unions should be exempt from taxation because they are merely supplementary to the operations of the individual credit union and necessary for their continued growth and expansion.

"VI. Reasons for Exemption From Section 92

Credit unions submit that they should be excluded from

the operation of Sec. 92 of The Income War Tax Act on the ground that compliance with that section imposes an unnecessary hardship on the credit union and does not result in any increase of revenue to the Government. If the section in its present form is complied with, every credit union each year must deduct 7 per cent of a dividend which probably amounts to only a few cents, and remit the same to the Receiver General of Canada. It must then complete and file the usual T.5 forms in quadruplicate and send a copy to each of its members. This procedure, if insisted upon, will result in a multiplicity of claims being made to the Income Tax Department for refunds of trifling amounts because a large percentage of credit union members are children and married women not in receipt of any other income and therefore not taxable.

"On behalf of the credit unions of Ontario, we submit that credit unions should not be asked to comply with this section. If our submission is given effect to no loss of revenue will result and a great deal of unnecessary work will be avoided both for the credit unions concerned and for the Income Tax Department. The credit unions will not be required to complete a multiplicity of forms and the Income Tax Department in turn will avoid the cost and trouble of handling a multiplicity of claims for refunds of trifling amounts.

"All of which is respectfully submitted.

Ontario Credit Union League Limited."

.....

Q. Just two or three questions to complete the submission with respect to credit unions. You have mentioned that you are Treasurer of the Municipal Employees' Union?

A. Treasurer-manager.

Q. With a thousand members? A. Yes.

Q. You have an intimate knowledge of the way in which one credit union works? A. Very intimate.

Q. And this brief you have submitted is a general submission on behalf of all these credit unions? A. Yes.

Q. How does it work in practice in your own union? For instance, in this large credit union I assume there is a considerable amount of work involved? A. Yes.

Q. Does any individual get remuneration of any kind? A. No one gets any remuneration of any kind. It is entirely voluntary.

Q. For all this work in connection with the 1,000 members? A. Yes.

Q. What interest do you find the members take in the annual meetings and elections? A. Quite an active interest. We generally find ourselves with more nominations for office than we have vacancies.

Q. You are an executive of long standing. I would like to ask you this: Have you had experience of, or do you know anything about, the credit committee and other committees? A. Yes. I know something of some of the workings of that committee because they call me into consultation.

Q. What type of problems among the membership does it deal with? A. Almost everything of a financial nature.

Q. Domestic matters also? A. Yes; we have often had domestic matters to deal with. We have found some members to be in a position financially which suggested that probably the husband or maybe the wife was at fault, or perhaps both were slightly at fault. We call them into consultation with the credit committee for the purpose of analyzing the situation and endeavouring to discover its causes and to

remove the present situation and avoid a recurrence.

Q. Has there been a good deal of that? A. Not a good deal, but we have had cases.

Q. I don't want to suggest that there is a great deal of that in your particular union, but how successful have you been in dealing with any cases that have come before you? A. Very successful, and that may be inferred particularly from the fact that once we have analyzed the causes of the financial situation and have been in touch with the creditors of our member, and taken care of his problems and shown him what in our opinion is required, there has been no subsequent application for a loan, and we take that as evidence of the fact that we have demonstrated and accomplished something.

Q. Have you made compromises on behalf of members?

A. Yes, in one or two cases.

Q. Were you an employee of the city of Toronto before the local credit union was formed? A. Yes, for over thirty years.

Q. Will you give the Commission the benefit of your opinion as to whether or not this credit union, with its membership of 1,000, has encouraged thrift in fact and not simply in theory. A. Very definitely it has encouraged thrift; yes sir.

Q. What other effects if any has the operation of this credit union had among the 1,000 employees? A. I have had it expressed to me by some of the lower-salaried employees that they now find themselves in possession of small savings accounts which they have not heretofore had, and I have always deemed that to be a happy expression of the success of the credit union.

Q. You say you have been interested in the credit union movement for some years. How did you become

interested in it? A. I think I ran across references in my reading of books with respect to economics -- not that I have made any serious study of it, but I have had books from the library which made references to different phases of economics and to the credit union movement, and particularly with respect to the movement in the province of Nova Scotia. I read a book, I believe, by Father Coady, and that awakened a very acute interest in me in connection with the credit union movement.

Q. Was it you who took the lead in forming the credit union? A. Yes. At that time I was President of the City Hall Employees' Association. I had heard of certain circumstances and I drew to the attention of the executive committee certain information with respect to credit unions, what they are and how they operate, and I advised them that it was my intention to suggest that we organize one in City Hall.

BY MR. PARKER:

Q. A few questions by way of clarification. Will you please follow your brief. In the first paragraph you tell us that there are 220 credit unions in Ontario at the present time. Do they all file returns with the provincial Government? A. The provisions of the Act require that.

Q. Where did you get your statistics? A. That would be obtained from the Department. It is published in an annual report issued by the Minister and Inspector of Credit Unions. You will understand, first of all, that I did not write this brief.

Q. You did not prepare the brief yourself? A. No.

Q. Who prepared it? A. There was a committee of two and they submitted their thoughts in the matter and from that committee copies were sent to all members of the executive

committee, of whom I am one. There are seven members. I got into contact with five of the other six and they are all in accord with the brief.

Q. It is a sort of joint production by the committee?

A. Yes.

Q. I was wondering about the source of the figures, where they came from, whether they were absolutely dependable?

MR. FRANCIS: We expected that the officials of the Provincial Government would have supplied the figures before we reached this stage.

BY MR. PARKER:

Q. Assuming that they are correct, 144 are now members of your league? A. That has since increased.

Q. I am wondering why you stopped at 144, why they are not all in. What brings them in or leaves them out? A. Some people take a little longer to realize what is really good for them, but they will get around to it in due course.

Q. You have not had some who came in and later found that they would rather be out? A. I have not heard anything official in that regard.

Q. Is there any systematic attempt to get those who are out to come in? A. Yes. I must admit that we circularize them as best we can. That depends on voluntary effort.

Q. There is more or less an organized attempt to get others to join the league? A. Yes.

Q. And that goes on day by day? A. Yes.

Q. Of the 144, how many have requested the league to speak on their behalf? How did they make that request? Did they come together or send you letters or how did you get the majority opinion? A. Unless I misunderstood this

first paragraph, most of those who are not members of the league, or some of those who are not members of the league have requested the league to speak on their behalf.

Q. How did they request you? A. That would be by correspondence with our secretary.

Q. You have seen that correspondence? A. No.

Q. Who took the initiative? Did the league send letters to non-league members inviting them to authorize you to speak for them, or did you go and ask them whether you should speak for them? A. I am afraid I cannot answer that question. I did not write the brief.

Q. You have shares. A member is a shareholder, I take it? A. Yes.

Q. Every member is a shareholder and every shareholder is a member? A. Yes, that is right.

Q. When you come to divide the surplus you divide it on three bases, as I understand. Some is given back to your shareholders as shareholders in proportion to the number of shares they hold? A. Yes.

Q. Then another portion is divided among the same group as members, in what proportion? A. Not as members, sir.

Q. Still as shareholders? A. Have you reference to the patronage rebate to the borrowers?

Q. That is what I am trying to find out, the amounts paid back. A. Every member is a shareholder and every borrower must of necessity be a member.

Q. So that there are three categories -- shareholders, members and borrowers? A. No.

Q. Not every member is a borrower but every borrower is a member? A. Yes.

Q. And every borrower is a shareholder? A. Yes.

Q. Suppose you have 50 borrowers out of the 1,000 members and you have a given sum of money to divide; how do you work it out -- in what proportions? A. May I cite my own credit union?

Q. Yes. A. In my own credit union our income last year was approximately \$3,500.

Q. That is the amount you had to divide? A. No. That is the amount of income. There were expenses, including heavy insurance premium of about \$1,200, leaving an amount which we distributed. We paid 4 per cent dividend on shares.

Q. That went to every member? A. Yes. We had previously reduced the rate of interest and therefore we reduced the patrons' rebate this year. We paid a 5 per cent patrons' rebate.

Q. What do you mean? A. We made a rebate of 5 per cent of the amount of interest paid by the borrower, the member who paid interest. Each borrower received a return of 5 per cent of the amount he paid during the year in interest.

BY MR. ARNASON:

Q. It is a borrower refund? A. Yes sir. And we put \$50 into the educational fund. The residue was \$46. In other words, we disposed of our entire income with the exception of \$46.

THE CHAIRMAN: What proportion of the funds in your hands is represented by deposit?

WITNESS: We have share accounts deposited. In our deposit account we have \$3,700, and in our share account \$60,500. We have total assets of \$67,000.

BY MR. PARKER:

Q. Before you arrive at the amount you have to divide

your pay insurance premium. How does that work? A. We pay on the basis of our financial statement at the end of each month. We pay insurance premium on outstanding loans, thus protecting the beneficiary of the member against having to settle the loan in the event of death. If a member dies leaving an outstanding loan the estate is not liable for payment of that balance.

Q. In any case -- whether he is competent to pay or not? A. The only limit is with respect to age. After the age of 60 or 65 there would be no insurance.

Q. I am a little mixed on that. You pay \$1,200 on what? What insurance do you get? A. That was the total expense for the operations of a year. We have two policies.

Q. Explain them. A. One policy I tried to outline is the loan insurance.

Q. It is insurance that your loans will be repaid? A. No. If I borrow money from my credit union, my union insures the amount of my loan. I repay it and it is reduced and finally there is no coverage. But if I should borrow \$300, and if I died the day after I got it, my widow would not be required to pay the \$300; my credit union would be reimbursed by the insurance company. That is one policy. The second policy we carry is life savings insurance. If a member has \$100 in share account and dies, his widow receives \$100 plus insurance of a like amount.

Q. It is a species of life insurance? A. That is what it is; yes sir.

Q. How does that tie into the general principles of credit unions lending to or assisting needy borrowers, helping them to get small sums of money at a low rate of interest? At first blush it would seem to be a different

type of business altogether. Perhaps it is not.

A. Credit unions are not exclusively lending agencies. We say that our first purpose is to encourage thrift. If we accomplish that there will be no need for the borrowing of money. One of the inducements to save is the fact that for each dollar saved there is a dollar insurance provided. True enough, it comes out of our earnings.

Q. If you are going into the life insurance business even on a small scale, are you not competing with the ordinary joint stock company? A. No. We are not the insurer.

Q. You use your funds to get somebody else to be the insurer. Is that necessary, in your opinion, as part of a successful credit union? Could you not get along without that? A. As a matter of fact, nothing accrues to the benefit of the credit union from the life savings policy; all the benefit accrues to the estate.

Q. Could not credit unions operate successfully and fulfill the primary purpose for which, I suggest, they came into existence, namely to provide loans without doing that?

A. I do not admit that that is the primary purpose. I think our prime purpose is thrift.

Q. I thought it was to provide loans? A. No sir.

Q. That is only secondary? A. Yes.

BY MR. NADEAU:

Q. Who are your life insurers? A. A cooperative company. It is a subsidiary of the Credit Union National Association, which is referred to as CUNA.

Q. An American firm? A. Yes; it is an American firm, but CUNA is actually international because we are affiliated with the Credit Union National Association.

No one may have a policy with CUNA mutual society unless he or she is a member of a credit union, and the other type of insurance is available only to credit unions. That is not loans.

Q. Do you know where the head office of CUNA is?

A. Yes, in Madison, Wisconsin.

BY MR. PARKER:

Q. Will you look at page three of the brief, about the middle of the page. Apparently there is some difference between the different income tax districts as to who is exempt and who is not: "In some cases inspectors of income tax have insisted on a strict compliance with the section and in other cases they have not." Then again you say: "A number of income tax inspectors looking at the matter in this light have not insisted on a strict compliance with the section although in other cases they have." What districts are there? What districts insist that you comply and which advise you more or less not to comply? A. First of all, nothing of an official nature has been called to my attention as President of the League, nor have I knowledge of any credit union having officially brought the matter to the attention of the League, but I have been advised of one or two credit unions who have been required to make the deduction. I do not know whether that reference is acceptable.

Q. Perhaps you put it a little stronger than you intended. Perhaps you mean that some credit unions do comply with it strictly and some do not, and those that do not have not yet been checked up? A. Probably the reverse is true.

Q. I do not want you to make statements about the

inspectors unless you know what you are talking about.

MR. FRANCIS: We have evidence available on that point.

MR. PARKER: If this witness has knowledge I will take his account of it.

WITNESS: I have no knowledge officially.

BY MR. PARKER:

Q. I take it from your brief that, from the nature of your business, you do not rely on Section 4 (q) to be exempt from taxation. You do not have any income?

A. We are so advised by our legal adviser, sir.

Q. Are you in a position to state as a practical matter that in seeking amendments to the Income Tax Act in order to clarify everything that is not now clear you would be willing to have section 4 (q) withdrawn and rely on the fact that you make no income? A. I would have to seek further legal advice on that matter.

Q. You have not given that sufficient consideration?

A. I don't think I am competent to form an opinion as to what the law means.

Q. You use the expression, relating to loans, that they provide an additional source of credit at reasonable rates of interest, and you talk about usury. What rates of interest do you charge? A. The maximum is one per cent per month.

Q. What is the charge? A. Some credit unions are one-half of one per cent, some three quarters; my own is three-quarters of one per cent per month.

Q. What would that be in terms per annum? A. Three-quarters of one per cent is nine per cent.

Q. Is it the same thing? A. As we charge, it would be. We do not discount our charges.

Q. Assuming you are right, do you think 9 per cent is a reasonable rate of interest? A. Yes sir, having regard to the fact that we return a part of that in patronage rebate and also pay for insurance.

Q. Why charge it in the first place? A. To provide for the member something he has not provided for himself. He probably would not insure the loan, neither will he insure his life savings, and we do that for him to protect his estate against the consequences of the reverse procedure.

Q. On page five in paragraph 4 you say: "No other financial institution is able to accept profitably deposits of such small amounts." Does the credit union accept them on a profitable basis? A. No, but we have no overhead. When I say no overhead, that is comparatively speaking. The commercial company with its overhead could not possibly hope to succeed with such small deposits.

Q. If they did nothing else that would be correct, but if that is tied on to another and bigger business with many departments is it not true that some of the bigger financial institutions are lending money to small borrowers for less than 9 per cent? A. If they are primarily lending agencies and depend on ten and twenty-five cent deposits, they will not lend much money. We are primarily a thrift organization.

Q. Is it true to your knowledge that many financial institutions are making so-called loans for less than 9 per cent at the present time and have been for several years? Have you any knowledge of that? A. That might be true with the type of collateral that this member hasn't got.

Q. Have you knowledge at all of so-called small loans made by other institutions apart from credit unions?

A. I know of no organization making loans without security at a lower rate of interest than 9 per cent to the type of borrower represented by some credit union members.

Q. But are there not many members of credit unions who are far from the needy class -- reasonably? A. Yes.

Q. Have you not hundreds of them right in your union? A. Yes, but we spoke of three types of credit unions: occupational, associational and community.

Q. I am talking about yours as an example. A. In that event I must admit that some of our members can borrow money at less than 9 per cent provided they advance the necessary collateral. Perhaps some are in a position to do so.

Q. One other question. On that same page, in paragraph 6, you say: "One of the main functions of a credit union is to build character." I thought the main function was to provide loans, and you have said your main function was to encourage thrift? A. Yes.

Q. And one of the other main functions, you say, is to build character. What do you mean by that? How does a credit union build character? If that is its main function, tell us how that end is attained. A. It is attained by aiding a member to see what is required for the efficient management of his own financial affairs, something which he has not accomplished until he is made to realize what the credit union tries to encourage. We embellish a man's character if we show him how to keep out of debt and save money.

Q. That is a good word you use there. Do you not think there is a little embellishment of credit unions in your description of them here? A. No sir.

BY MR. ARNASON:

Q. Is it within your knowledge, in so far as the operations of your credit union are concerned, that some loans have been made to your members to enable them to pay off loans which have been borrowed at considerably higher rates? That question was prompted by your reference to certain types of lending institutions. A. The answer is very definite. Yes; we have been required to take care of matters of that sort in order to avoid garnishees.

Q. Were those rates considerably higher than those charged by you? A. Yes sir. Those rates have been the maximum permitted under the Small Loans Act.

Q. One other question. Is it your observation that one of the reasons why small investors tend to build up savings in an institution like yours is their belief that it is to their advantage to do so inasmuch as their small savings constitute the first security for a loan in case of need. A. Yes sir. That is true, and I can say that we have many members who borrow from our credit union at a rate of 9 per cent or three-quarters of one per cent a month. They borrow from us an amount in some cases considerably less than the amount of their savings, so that the answer to your question, sir, would be that they do save, among other reasons, in order that they may have security for loans.

Q. What is your opinion regarding the influence of your life savings insurance plan on the accumulation of savings? Does it encourage the member to build up his savings? A. Very definitely it does.

BY MR. VAUGHAN:

Q. On page two of your brief you say: "Section 28

of the Act prohibits a credit union from accepting deposits or lending money to persons who are not members thereof."

Will you tell us how people become established as members?

A. Yes. They make a written application which is approved by a director and finally approved by the board of directors. Following that the individual becomes a member when he pays his entrance fee, if any, and makes his first payment on account of his savings, his share.

Q. What is it that leads up to the making of that application? A. There might be any number of reasons. He may have heard from a man working next to him who is a member, or he may have seen some of the literature we distribute, which may have been brought to his attention.

Q. Is there a possibility that a man might become a member just prior to the time of asking for a loan? Does one have to be a member for a certain period of time before being granted a loan? A. That rests with the individual credit unions. In our early days we required them to be members for at least thirty days, but we decided that that was not very good because there are circumstances over which one has no control -- sudden illness or accident for example. A man finds himself faced with the necessity of putting his wife in the hospital and making a first payment and if he is not a wealthy man he must turn somewhere to get money immediately.

Q. The point is this. It may be that these members just apply because they intend in a very short time to ask for a loan. A. That might possible be true, sir.

Q. Then, in your opinion, does it constitute true membership if a man knows that he wants a loan and he comes and makes application to become a member with the inten-

tion of asking for a loan immediately? A. There are certain reasons for the termination of membership in my own credit union. I can mention two. One is withdrawing from the service, which automatically precludes a man from continuing membership, and secondly if men have left the service temporarily to go on active service. Those are two reasons for withdrawal of membership.

Q. The section says that the lending of money is done only to persons who are members? A. Yes.

Q. That is correct? A. Yes.

Q. You have quite a surplus. Mr. Parker asked you how much you had outside deposits and you said \$60,000?

A. That is not surplus.

Q. What is it? A. That is the amount of money saved by our members which we use for the purpose of lending to other members.

Q. I mean the funds you have on hand. Are those funds all loaned to members? A. No; \$42,000 of the \$67,000 is lent to members.

Q. What happens to the balance? A. We have put \$15,000 in Victory Bonds.

Q. Does that follow what is stated here, that the business is all done with members? A. Yes sir. There is permission in the statute to invest in certain types of security.

Q. That may be so; but does that accord with what is stated here, that the business must be all done with members? A. Yes. The money we invest is money belonging to our members.

Q. Yes. It belongs to them, but the money received by members is not loaned out to other members; part is

invested in securities of one kind or another. Is that in accord with the principle of mutuality? A. We submit that it is, and we regret exceedingly at any time that we must turn to investment for the use of our money.

Q. I simply read the statement made here, that the business had to be with members. A. I did not assume that you were thinking in terms of loaning to the Government when we bought victory bonds. We were using capital which for the time being was inactive, the savings of our members.

Q. What happens to the interest on victory bonds? A. Our entire income after meeting expenses and the transferring of 20 per cent to the guarantee fund was disbursed with the exception of \$46. It was disbursed to our members in one form or another.

Q. And that disbursement was tax-free? A. Yes.

Q. If they owned the victory bonds themselves they would have to pay taxes on the interest? A. If they are taxable they will pay interest when they receive it from us.

Q. When will they receive it if you keep it in reserve? A. We don't keep it in reserve. Our income after meeting expenses and meeting the requirements of the Act with respect to the guarantee fund is disbursed to the members.

Q. And that is taxable in the hands of the members? A. Yes.

Q. You made quite a point of life insurance premiums. Where does the money come from that pays the premium? A. Our income from loans or from investment?

Q. If you paid interest on those investments to one of your members that member would have first to pay income tax before he could buy that insurance. In this case it is done within your organization? A. That is not quite

clear to me; I am sorry.

Q. You say that this represents earnings of your customers, your depositors' money? A. Yes.

Q. If the interest on that money were paid directly to your depositors or members there would be income tax on the receipt of that, but doing it this way the money is used to buy life insurance without paying income tax?

A. That is correct.

Q. You say that the work of the credit union is done largely without salary? A. Yes, entirely so in the case of my own credit union.

Q. Take the credit unions in the country; where are they located? A. They are located, some of them, in communities, some in parishes throughout the country, and when you get into the cities you find them in the large centres of employment.

Q. There are quite a number of them in cooperative places, stores and places of that kind? A. I would imagine we would find one in each cooperative but you find them in a great many other centres of employment.

Q. There is one in each cooperative? A. That is an assumption on my part.

Q. Who pays the salary in that case? A. To whom?

Q. The salary of the person who looks after the work when the credit union is in a cooperative office? A. It can be accepted, I think, that in most credit unions there is no payment made to anyone at all.

Q. Perhaps not directly to the credit union, but is not the person who does the work paid by the cooperative if the office of the credit union is in the place of business of the cooperative? A. Yes. But credit union work is done after hours, not during business hours, if

I understand the question correctly.

Q. Do you mean that your deposits are taken after business hours? A. Yes.

Q. And loans are made after business hours? A. Yes. With the exception of certain private places of business the employer has seen what he thinks is the great advantage in the credit union movement and has provided time, space and facilities for the operation of the credit union during business hours. My own credit union operates after business hours.

Q. I am referring in a more general way to credit unions located in the country. You say that space and facilities are given the credit union in cooperative offices? A. In large factories that is true.

Q. In these cases, do the people who want loans do business outside business hours? A. I could not answer that. I only know that time and space are provided during business hours in some cases.

Q. If time and space are provided would they be left unused? A. I doubt it.

Q. Then there must be somebody there to serve the people who come in? A. Yes. That is made possible by some employers.

Q. I am talking about places in the cooperative now. A. I don't know of any such provision in a cooperative. It may be that is true, but it has never come to my attention.

Q. You don't know of cases where there is space provided in a cooperative? A. No, I don't know of any. It might well be that there are such provisions.

Q. I thought you said a while ago that in nearly

every cooperative provision was made for a credit union?

A. I am sorry if I did not express myself properly.

I thought that in each cooperative one would find a credit union.

Q. What does that mean -- a credit union in the place of that business? A. We find credit unions in places of business and in other places also.

Q. You say there are places of business where you will find them. If they are in places of business somebody must be there to attend to the taxpayers when they come in? A. Yes.

Q. And if it is in a cooperative office, who are the people that do that work? Are they not employees of the cooperative? A. Do you mean employees of the credit union?

Q. Of the cooperative. If you have a credit union office in a cooperative and the wages are not paid by the credit union, you say, and if there is service given there the wages must be paid by the cooperative. Are they not? A. I am afraid I don't understand that very well. We would have a credit union in a factory but the factory is not cooperative.

Q. I am referring to a credit union in a cooperative. A. I know that there are credit unions in cooperatives and I would not be surprised if there were credit unions in all cooperatives. What provision is made for the operation of credit unions generally I cannot say, but I do know that in some factories the employer has made it possible for the credit union to function by providing space and facilities for operation. What happens in a cooperative I do not know.

Q. You do not know whether wages are paid or not?

A. I know that in most credit unions no wages are paid.

Q. By the credit union? A. If there were wages paid we would not be able to pay a dividend or make a patronage rebate.

Q. I do not get that point. If there is a credit union in a cooperative place of business, and you say there are no wages paid by the credit union, who pays the wages of the person doing the work? A. He is doing it voluntarily. It is a voluntary contribution on his part.

Q. Are you sure it is not an employee of the cooperative that comes in and serves customers? A. No. Each credit union is a unit by itself.

Q. Are you sure of that point? A. Very definitely.

Q. The wages are not paid by the cooperative where the credit union is in a cooperative place of business? A. I would be very much surprised to learn that wages are paid out of credit union earnings. The income of a credit union does not permit of the payment of wages with the exception of one or two large cases.

THE CHAIRMAN: Is there any necessary connection between a credit union and a cooperative?

WITNESS: No sir; none whatsoever.

BY MR. PARLER:

Q. Perhaps Commissioner Vaughan and you are not talking about the same thing. When you say that you would expect to find a credit union in every cooperative, what you mean is that the employees of each cooperative would form themselves into a credit union? A. Yes.

Q. It does not necessarily mean that there is a credit union in the store or on the premises? A. No.

Q. It is the same personnel but not necessarily the same place of business or staff that operates it?

A. Yes.

BY MR. ELLIOTT:

Q. Would credit unions find it easier to furnish the tax officials with a list of names and amounts paid in dividends to each individual rather than to make the 7 per cent deduction as some are required to do now?

A. Yes. That is purely the mechanics of it, and that would be much simpler.

BY MR. ARNASON:

Q. Would you care to give information about the loss ratio of your credit union -- that is, if you have had losses? A. We have had no losses whatsoever.

Q. Is that generally true of Ontario credit unions? A. In the last report put out by the Minister the loss ratio was something like -- may I take time to get it?

MR. FRANCIS: Bad debts charged during the year totalled \$92.67. They were less than 5/1000 of 5 per cent.

BY MR. ARNASON:

Q. What is the reason for that exceptionally low loss ratio? A. It will be found in what has been said in the brief with reference to the building of character.

Q. Or careful selection of membership? A. Yes.

MR. PARKER: That completes the official list of briefs for Toronto, with this exception. You will remember, Mr. Chairman, that the first day the name of Professor Macgregor was mentioned in connection with some information given by the Canadian Manufacturers' Association. A supplementary statement was prepared and I understand he is here. I have no questions to ask. In the meantime the statement originally filed has been slightly amended. Perhaps we can put the amended sheet in?

MR. A.C. THOMPSON: I have already filed a correction on page six. I might say it was due entirely to an error in multiplication and it threw out the whole example. We had to revise it, but the principle was not altered in any way. I have new appendices with corrections right through. I worded this appendix and it was on the advice of our committee that I obtained counsel from an economist expert in public finance. His material and figures were quite a bit different from what I prepared so I rewrote the whole matter and again submitted it to this expert who has been named, but who did not wish to be named -- I refer to Professor Macgregor. It is our appendix based on his tables and statements. It is our writing and not his, and it is really our submission. I wish to make that clear because he did not write the appendix but furnished the material on which it is based. If you wish to ask questions it may be that I can answer them without calling on Professor Macgregor.

MR. FRANCIS: As far as I am concerned, I wish to make it perfectly clear that I do not want to cause inconvenience to Professor Macgregor. But I am representing a large number of cooperatives, I have received a copy of this submission, I have taken advice on it, and we cannot understand it and cannot see the relevancy to the terms of reference. I would like to have certain things in it explained and I would also like to be told in what way it relates to the terms of reference. I say that because we do not think it is a good thing to have a submission that does not seem to relate to the terms of reference and is not understandable.

THE CHAIRMAN: I have not read it.

MR. PARKER: If we excluded everything that was not relevant to the terms of reference the record would be a

great deal shorter than it is now. I am inclined to think that the statement is quite irrelevant, and I must say that it is difficult for me to understand it.

THE CHAIRMAN: I have spoken to Professor Elliott and I do not think it is relevant to the inquiry.

MR. THOMPSON: We have mentioned double taxation and our submission is directed to the effect on public revenues if the double tax were taken off. That is the only relevancy it has.

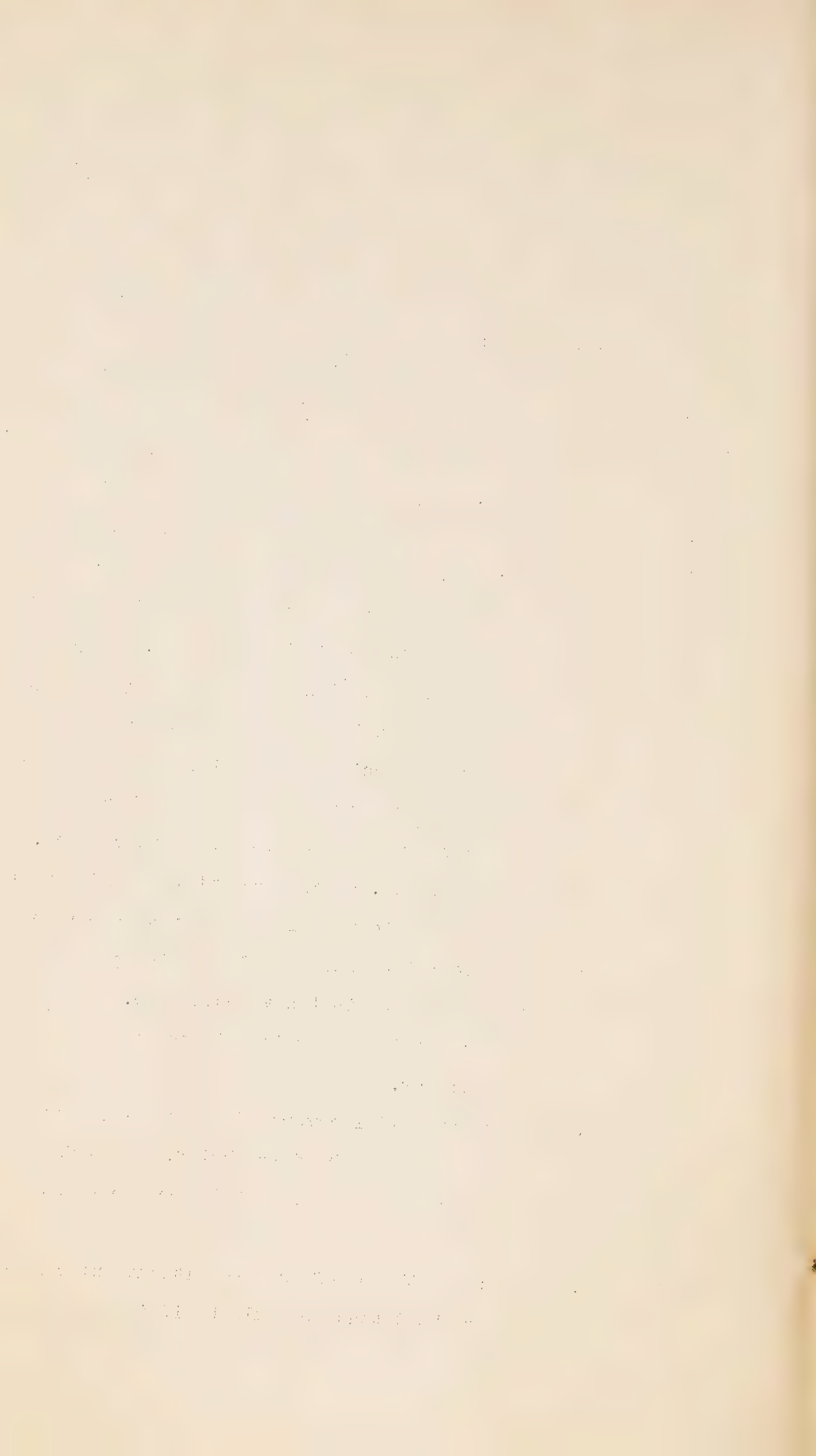
THE CHAIRMAN: It can be left with us and if it is relevant its relevancy will appear as we read it.

MR. PARKER: Mr. Grosch has sent along two briefs which apparently were not ready to be dealt with in Regina and he has asked that they be dealt with here. They are lengthy. One deals with the independent poultry and egg dealers and the other with the independent hatcheries. There are two methods by which these briefs can be disposed of. One would be to have them read and the other would be to defer them to some future date and some other place. If Mr. Grosch cares to do so, he can present them and have them taken as read and added to the list so that they may be given proper consideration when the Commission gets down to a study of the submissions that have been made.

THE CHAIRMAN: It is rather late in the day to open briefs in the usual way.

MR. GROSCH: One brief covers 18 pages and has much material in it relative to the dairy brief. The other brief is six pages and the reading of it would not take long.

MR. PARKER: If the brief is read without any comment we are no further ahead than we would be if it were simply laid on the table.



THE CHAIRMAN: Perhaps Mr. Grosch wants the assurance that we will read it.

MR. PARKER: I am not trying to make it difficult for my learned friend, but those briefs should have been before the Commission in Regina.

THE CHAIRMAN: I do not think we shall be any further ahead by having these briefs read now without comment. They can be read later on. Do you not think, Mr. Grosch, it would be wise to leave the briefs with us and let us read them?

MR. GROSCH: Unless they are read at Ottawa. The reason these briefs were not in earlier is this. The poultrymen got together in convention, and it is only when they get together that they consider these matters. They had a convention and, having discussed the matter, they decided that they would like to submit a brief. The only alternative would be to ask your Commission, Mr. Chairman, to defer the reading of them until you meet in Ottawa.

MR. FRANCIS: May I speak to this matter. I represent the cooperative union in the province where these briefs come from and it is difficult to be properly instructed on matters that may go out in the press if the briefs are read here. I understood they were to be ready in Regina. I have not put myself in a position to cross-examine in Toronto. Later on I could be instructed.

THE CHAIRMAN: We do not wish to drag Mr. Grosch around the country with two briefs waiting to be submitted. That is not convenient to him and I do not think, on the other hand, that it is of much advantage to us to have them read now, unless they are discussed, and that would carry us far beyond our time. We might be able to deal

with them in Ottawa, where they could be read and discussed in the usual manner. Certainly, however, we could not do justice to them at this late hour. It is after four o'clock.

MR. GROSCH: I have received specific instructions from my clients to present these briefs to the Commission.

THE CHAIRMAN: The trouble with that is that we have a strict rule that if briefs are not regularly before the Commission -- and that unfortunately is the case here -- they must take their chance in the order in which they come. That means that these briefs will go to Ottawa and we may hope to dispose of them there. We cannot possibly dispose of them now, however. I think that also is the view of my colleagues.

MR. GROSCH: Is that the ruling of the Commission?

THE CHAIRMAN: Yes.

MR. GROSCH: Could I be advised as to the probability of their being heard in Ottawa?

THE CHAIRMAN: We will make an opportunity for the presentation of the briefs in Ottawa. I hope we shall have time for it, but we shall know more about that tomorrow morning when we are in Ottawa and are fully aware of the situation then.

MR. GROSCH: And in the meantime the briefs are received and will be considered?

THE CHAIRMAN: Yes. We will try to give you an opportunity of being heard in Ottawa.

The Commission thereupon adjourned to meet in Ottawa on Friday, February 16, 1945.

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